Department of Political and Social Sciences

Economic Disadvantage in Central and Eastern Europe. What Difference Does Social Assistance Make?

Silvia Avram

Thesis submitted for assessment with a view to obtaining the degree of
Doctor of Political and Social Sciences of the European University Institute

Florence, October 2012

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ACKNOWLEDGEMENTS

The following chapters are the fruit of a long and sinuous journey that has taken almost six years to complete. In undertaking it I have experienced moments of doubt but also of enthusiasm, misgiving but also satisfaction, frustration but also joy. Most importantly, the last six years have been a great learning experience, in part made possible by the many great people I have come to know. Now that the journey is coming to an end, it is time I thank and acknowledge them.

First of all I would like to thank my main supervisor Martin Kohli and my co-supervisor Chris de Neubourg. Throughout my PhD student years they have given me invaluable advice, guidance and support to compete this thesis. Especially Martin, as the main supervisor, has helped me navigate the treacherous waters of PhD research while giving me the freedom to pursue my own interests and ideas.

The final chapter of the thesis and a great many deal of corrections have been done while I was working as a researcher at ISER, University of Essex. I am indebted to everyone at ISER for providing me with a great environment for me to complete this dissertation. In particular, I am grateful to Holly Sutherland for her understanding and patience and for giving me the time to finish. She and Mike Brewer have also done a great job in pressuring me to muster the energy and resolve required to cross the finish line.

A special thank you goes to Jaap Dronkers. Although not directly involved in my PhD work, he has made it possible for me to substantively enrich my academic experience and has introduced me to the exciting field of education research. A great mentor and advisor, he is also the person who has done most to support, counsel and encourage me in my research endeavours, especially during my darkest moments of doubt and disorientation. It was a great honour to work with him.

I also thank all the administrative staff at the EUI, especially Marie-Ange Cattoti and Gabriella Unger who have served as departmental assistants during my time in Florence.

My time as a PhD student could not have been the great experience that it was were it not for the many friends I have made during those years. There is not enough space to mention them all, so I will just mention Ema Ignatoiu. Ema, I will miss the great conversations we used to have!

Last but not least, a heartfelt thank you to my parents, Iohanna and Dan Avram, who have given me the curiosity to explore, the resilience to persevere, and the audacity to venture. To them I dedicate this thesis.

ABSTRACT

The present study analyses the impact of social assistance programs on poverty, broadly construed as economic disadvantage, in eight Central and East European countries during the mid-2000s. It does that by examining cross-national & cross-temporal variation program features and specificities to identify patterns of association with outcomes of interest such as poverty levels, individual long-term income, earnings and assets. The main data source used throughout the study is the 2007 longitudinal component of the European Union-Survey of Income and Living Condition (EU-SILC).

Social assistance programs in CEE are a marginal component of the social protection system in all eight countries. They serve small populations, spend relatively little compared to needs and the benefits they award are largely a top-up for their clients. Both the ability of the programs to reach the poor and, the ability to provide them with sufficient resources to bring them above the relative poverty threshold are found lacking. However, the more extensive and liberal programs achieved higher effectiveness in reducing poverty, and directed a greater share of their resources to the very poor. Contrary to theoretical expectations, no link was found between generosity and efficiency. Discretion has been linked to very poor targeting performance, suggesting arbitrariness in entitlement and spending decisions.

No conclusive evidence of a work disincentive effect of social assistance programs could be discerned. Most importantly, any work disincentives that the programs might create could not be linked to the benefits they provide. Instead, lower future incomes appear to be related to program participation as such rather than disbursed benefits.

Finally, social assistance programs could not be shown to impede asset accumulation among low-income households. With the exception of debt management, there are no indications that the income floor implicit in the programs represents a disincentive to saving.

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INTRODUCTION: PUBLIC POLICY AND ECONOMIC DISADVANTAGE

Addressing poverty has long been a core function assumed by the modern Western state. After the post-war "golden years", slower growth, rising and persistent unemployment especially in continental Europe, migration, and more conspicuous inequality of income distribution have given a new impetus to debates about economic disadvantage and public efforts to reduce and control it[1]. Among the many types of public intervention that may be relevant in this context, this study is focused on only one namely, means-tested (cash) transfers directed to households in demonstrable need. Throughout the thesis, the same public policy may be referred to using other terms such as social assistance, minimum income, income support or public assistance. All are used interchangeably.

The present study analyzes the impact of social assistance programs on poverty, broadly construed as economic disadvantage, in eight Central and East European countries during the mid 2000s. The interest in the role of means-tested benefits in mitigating poverty stems primarily from two sources. On the one hand, this type of program usually endorses poverty prevention/ alleviation as an explicit policy goal. On the other hand, means-tested benefits are ultimately the last barrier Western democratic capitalist societies have erected between their members and material destitution. As such, the capacity of the above mentioned policies to effectively fight back against economic deprivation is of particular concern.

The concept of poverty figures prominently in the argument of the thesis. Despite its apparent straightforwardness, there are many uncertainties about its conceptualization, especially when moving from the general to the concrete. The main points of contention in the poverty literature are reviewed in the next section, along with a more thorough discussion of the way the notion is employed for purposes of making the thesis's argument. For the moment suffice it to say that poverty is meant to describe a state of economic disadvantage resulting from lack of material resources.

Policy analysis is carried out by comparing social assistance programs existent in Central and Easter European (CEE) countries, between 2004 and 2007. Albeit now clearly heading towards emulating West European models, the region has had its own distinctive history and particularities. Shortly before the fall of the communist regime, an important Hungarian sociologist, Ivan Szelenyi, was speculating about a possible Third Road developing in the CEE satellites of the USSR, as a possible modernization alternative to both Western capitalism and Eastern communism (1988). While the Third Road has not materialized, the recent history of the region has been quite extraordinary. After World War II, the region has experienced unprecedented upheaval as the implementation of a radically different type of society was attempted under foreign pressure. Not only political institutions, but also economic and social

[1] Before industrialization, material destitution had long been a prominent feature of all European societies.

ones have been dramatically transformed. Bureaucratic allocation has replaced market forces as the main economic co-ordination mechanisms, and redistributive concerns were subsumed and incorporated into economic policy.

After nearly half a century of straying from the capitalist-democratic path, the same region has again underwent radical, social and political changes as the socialist, command economy template has been abandoned in favour of liberal democratic capitalism. A new period of institutional restructuring and rebuilding has followed in which liberal blueprints have meshed with more conservative traditions to build a new institutional order. Moreover, the institutional re-making has taken place in a period of acute economic crisis and social turmoil. In this context, both the outlook and the consequences of the new institutions are of special interest.

The institution this work is focused on is the most general type of social assistance, i.e. minimum guaranteed income programs targeted at the general population[2]. On the one hand, due to their relative novelty, relatively little is known about the characteristics and the functioning of such programs in Central and East European countries. Virtually inexistent two decades ago, modern means-tested benefits have been established almost ex-nihilo[3]. Conversely, the "transition" period[4] has been marred by formidable social and economic problems, among them an increase in poverty and inequality. It is thus of interest to see the extent to which new institutions set up in the post-communist era have been successful in addressing an old problem of capitalist societies.

On the other hand, since the design of social assistance programs in CEE countries has been largely modelled based on Western blueprints, an opportunity is created to investigate the role of context. Although sharing the general outlines of a capitalist democratic system, CEE states differ from the developed Western world both in the level of their economic development and in the specificities of their bureaucratic-administrative culture. In addition, the peculiar make-up of CEE societies may be of relevance. On the one hand, CEE countries have not experienced the strains posed by a large influx of immigrants. On the other hands, many of the CEE countries are far from homogeneous, as one or several minority ethnic groups inhabit their territories. Economic development, migration, ethnic composition, and demographic trends are important factors shaping the distribution of resources in a society, and hence also poverty's profile and characteristics. Administrative capacity is paramount for program implementation, and thus program performance, especially in the case of such a complex program as means-tested social assistance. All of the abovementioned factors make for a policy setting that is quite different from that found in more economically developed West European countries. Comparing

[2] I thus do not consider categorical means-tested benefits (such as for example benefits for the elderly or for families with children) nor in-kind benefits aimed at the poor.

[3] The next chapter will qualify this assertion to some extent; although poverty was not officially recognized in most countries of the Eastern bloc, some very limited benefits to assist the poor have been put into place in late communism, especially in the more liberal regimes.

[4] By "transition" it is usually meant to describe the first decade after the fall of the communist regime, i.e. the 1990s.

the impacts of similar programs in different settings may yield valuable insights on the significance of the latter.

While some of the discussions concern the entire region, analyses have been carried out using only eight countries, namely the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia and the Slovak Republic. The choice is based largely on data availability[5] grounds.

In connecting poverty and policy, I focus on design. More specifically, in treating policy as an instrument through which public authorities "wield their power" to effect social change (Vedung 1997), I consider whether certain policy features are more likely than others to bring about the desired change. To make my case, I go beyond wholesale program evaluation and deconstruct one type of policy instrument to a much finer level of detail. In doing so, I eschew general regime typology[6] discussions in favour of an approach that allows me to examine potential policy effects of each program component separately. The underlying motivation is both theoretical and practical. On the one hand, by disentangling program elements I am better able to draw on and test microeconomic theories of labour supply and saving. On the other hand, by analyzing program characteristics individually, I am better positioned to evaluate which measures work and which do not in poverty prevention. A serious effort is made to address both first and second order effects, so as to gain a more accurate picture of total effects. Second order effects originate in behavioural changes that individuals and/or families are inclined to make in view of the program's existence. A word of caution is warranted at this point. Evidently, the various features of a program may have effects individually but also taken together. In other words, there may be interactions between the different program components. While I do consider such possible effects, my research design and, especially, the small number of different policies in my sample preclude me from reaching more than (very) tentative conclusions.

So far, the term "program/policy effects/performance" has been mentioned, but not explained. Broadly speaking, the terms are used as a reference to the impact of social assistance programs on economic well-being. First, in all the analysis, social assistance, public assistance, means-tested income support and minimum guaranteed income are used interchangeably to refer to minimum guaranteed income programs (with the addition of means-tested housing benefits in some cases). Thus, means-tested categorical benefits such as those for the elderly or those for

[5] All of the analyses are based on the European Union- Survey of Income and Living Condition, and so are limited to countries contained in the dataset. Initially the analyses were set to also include Romania and Bulgaria. Unfortunately, delays in data release and the smaller number of waves have ultimately precluded their inclusion.

[6] Several studies have looked into the issue of whether Central European Welfare states/ policies are 'different'. i.e. a type of their own (Bahle, T. (2005). Family policy in the enlarged European Union: persistent diversity in 'old' and transition to the periphery in the 'new Europe'? Social Conditions in an Enlarged Europe, WZB, Berlin, Cerami, A. (2009). "Változó Közép-Európa: a jólét és a szociális segélyezés kialakuló modellyei [Central Europe in Transition: Emerging Models of Welfare and Social Assistance]." ESÉLY(1): 28-50.) . I want to stress that I do not follow this approach. Instead, I try to go a to a finer level of detail to look at more general relationships between program design and program outcomes.

families with children are not considered. The term social assistance is used in a broader meaning to denote benefits for the poor in general in the literature review in Chapters 2 and 3.

Second, since the main explicit goal of social assistance transfers is to provide a modicum of resources meant to prevent extreme hardship, program effects are first discussed in terms of impact on poverty. Subsequently, to keep the analysis simple and straightforward, program effects are gauged directly in terms of economic resources rather than poverty. Two types of resources that are most probable to affect the economic standing of a majority of households, namely income and assets, are considered. Finally, in view of the possible second-order effects of means-tested benefits on labour income, I briefly examine program effects on earnings and labour supply. The structure of the argument is made explicit in the following section.

1.1 STRUCTURE OF THE ARGUMENT

The remainder of the chapter is dedicated to the introduction of an important theoretical concept, i.e. poverty, as well as to an in-depth discussion of the links between public policy and material well-being. As a background to the main question underlying this thesis, I first review some of the most important arguments that have been made on both the rationale and limits of public intervention to address poverty and inequality. Next, a short general description of the most important existing policy framework for addressing poverty and inequality in the Developed World, namely the welfare state, follows. Last, the final section of the chapter deals with social assistance design and its relationship with poverty.

The first introductory chapter is followed by two descriptive ones that constitute the background for the subsequent analyses. Chapter two reviews the main trends and characteristics of poverty in Central and Eastern Europe. The starting point is the communist period. Because specific data on poverty during communism is scarce, I build instead on information on income distributions, consumption patterns, social mobility, educational outcomes and inequalities in political power to show which groups were most likely to find themselves in a disadvantaged position. The second part of the chapter is dedicated to the post-communist period. It provides an overview of levels and trends in both absolute and relative poverty indices, as well as an outline of poverty profiles, i.e. individual and household characteristics associated with a higher risk of poverty. The chapter ends with a discussion of the length of poverty spells.

In Chapter 3, the features and specificities of social assistance programs in CEE are described in detail. Before examining the current program characteristics, a brief account is given of the public measures directed to the poor under the communist regime in various CEE countries. Subsequently, characteristics and impact on income inequality of social assistance programs during the 1990's are discussed. Lastly, the bulk of the chapter is taken up by a detailed description of social assistance programs between 2004 and 2007. In all, five separate program

dimensions are reviewed, namely expenditure, means-tests and work tests, benefit levels, centralization, and the provision of complementary services (health and housing).

Chapters 4, 5 and 6 contain the actual analyses of program effects. Following a summary of the main findings related to social assistance programs in Western Europe, Chapter 4 uses EU-SILC data to perform a classic pre-post transfer analyses of poverty levels and characteristics for eight CEE countries between 2004 and 2007. It shows not only traditional measures of poverty reduction, such as the difference in poverty rates and poverty gaps before and after transfers, but also measures of targeting performance, program extensiveness (number of clients and expenditure), relative benefit levels and distributional effects on the client population. The main indicators are presented first for the general population, and subsequently separately for six family types.

Drawing on microeconomic theories of labour supply, Chapter 5 uses econometric modelling and the panel nature of the EU-SILC to have a closer look at the impact of program participation on future income, earnings and labour supply. Similarly, Chapter 6 looks into the potential effects of programs on asset accumulation not only on program clients, but on the low-income population in general. Finally, Chapter 7 brings together the results from the various analyses and puts forward several conclusions.

1.2 POVERTY AND INEQUALITY

What is poverty? While the concept has much intuitive appeal, pinning it down involves answering a series of difficult questions. As mentioned before, poverty is taken here to represent economic disadvantage. But what constitutes disadvantage? And which are the dimensions of wellbeing "economic" refers to? In principle, two issues need to be grappled with when defining poverty, namely the economic variables the definition relies on and the threshold separating the poor from the non-poor. Let us address each of them starting with the latter[7].

In the nineteenth century tradition, poverty was equated to threatened physical survival and pauperism (Miller, Rein et al. 1967). It represented a "condition of individual scarcity taking extreme forms" (Andreß 1998), such that satisfaction of the most basic needs was imperilled. The threshold which delimited the poor from the rest was therefore "absolute" in the sense of being invariant to context. In particular, it did not depend on the material situation of the non-poor members of society. More recently, as industrialized societies grew more affluent, poverty began increasingly to be defined in "relative" terms, as an "inability to live in a way customary to the environment" (Kangas and Ritakallio 1998). In this latter view, poverty cannot be defined universally. It comes to be inextricably linked to the average affluence level of society. Thus,

[7] For a thorough discussion of definitional and measurement issues related to the concept of poverty see Tomaszewski, W. (2009). Multidimensional poverty and social exclusion in Europe: a cross-national perspective. Social and Political Sciences. Florence, European University Institute. **PhD Thesis**.

although historically, poverty and inequality have been treated as qualitatively different concepts, more recently, they have converged somewhat. In effect, substantial controversies remain about whether poverty in the economically developed world should be defined using absolute or relative approaches and about the ways the actual poverty threshold may be derived or established. Both absolute are relative definitions of poverty start from the general assumption that poverty arises in a context in which at least some human needs go unsatisfied. Whereas this assumption is relatively uncontroversial, it is much less straightforward to establish which unsatisfied needs are to be considered as worthy of public concern. In particular, if basic human needs are taken to involve not only physical necessities but also relational and social ones, the original, absolute definition of poverty can no longer be seen as adequate. Poverty, in fact, becomes a question if inequality.

Beyond the absolute vs. relative controversy, many issues remain when moving from theoretical discussions to empirical research on poverty. First and foremost is operationalization of economic well-being. Several strategies are possible, each having both advantages and drawbacks. The simplest one is to circumvent all evaluative issues and rely on the direct subjective assessment of the respondent herself. Obviously, such a measure would no longer reflect an objective depiction but would rather capture individual dissatisfaction with one's own standard of living (Gallie and Paugam 2002). Because of their striking subjective nature, poverty estimates based on assessments carried out by subjects themselves are harder to interpret for comparative purposes. Furthermore, the same subjectivity renders impossible their use when policy decision making about who receives what benefits is to be made (Kangas and Ritakallio 1998). Nevertheless, they constitute a valuable source of information that is not to be overlooked when examining quality of life and personal wellbeing.

If poverty is to be defined and measured in an objective way, two options remain. Need satisfaction may be measured directly, as quality of life, living standard, or functioning sets (Sen 1997). Alternatively, an indirect strategy would focus on the availability of resources for need satisfaction. The latter has been, by far, the widest used approach in empirical poverty research. In principle, many types of resources are consequential for individual well-being and so should be taken into account when measuring poverty. In practice, however, it has become customary to use post-tax, post-transfer annual income to approximate the reserve that may be employed to acquire goods and services needed to satisfy needs. Using lack of income as a measure of poverty has the definite advantages of relative easiness in collecting data, as well as the facilitation of pooling and comparison by using only one measurement unit, namely money.

Despite these practical benefits, focusing narrowly on income alone has noticeable shortcomings. First, income is clearly just one type of resource, among many others. Financial assets, housing, health, education, access to quality basic services, political power, social networks, time etc. all constitute valuable resources that influence current well-being, as well as opportunities for the future (Miller, Rein et al. 1967; Andreß 1998; Smeeding 2000; Johansson 2002). Not only are all these forms of "capital" instrumental to well-being, they are also, to a

large extent, interrelated. One form may be transformed or converted into another. Yet, despite these considerations, it is inherently very difficult to construct more encompassing but workable measures of available resources. The multidimensionality aspect quickly becomes a thorny problem once aggregation or interpersonal comparisons are needed. Consequently, notwithstanding the substantial progress to be made by taking a multidimensional perspective, income-based measures of poverty continue to dominate in empirical research.

Despite its apparent promise of tractability, using income alone to measure and examine poverty is not without problems. For example, being a flow measure, income may vary, sometimes substantially over time. As such, cross-sectional pictures of household income at any given moment may greatly over- or underestimate average income in the longer run[8]. In addition, income from certain sources, such as home production, the grey economy, traditional/subsistence agriculture or the monetary value of in-kind transfers is notoriously difficult to quantify.

A more general critique may be levelled not only against income based measures of deprivation but against all attempts to assess poverty by relying on the indirect measurement of available resources. Ultimately, the substantive interest is in actual individual well-being and the various types of resources are simply means to achieving other ends. In focusing exclusively on means, the resource based approach ignores the fact that heterogeneity in individual, environmental, social etc. factors yields different "conversion rates" of resources into well-being (Sen 1997). A possible alternative is then to take a direct approach, and study well-being and achieved functioning in society. However, beyond a few uncontroversial aspects such as health, education or longevity, translating well-being into actual observable indicators quickly becomes intractable. First, if participation in society is purported to necessitate adequate consumption, a major difficulty resides in pinning down deficient consumption, i.e. in establishing a list of items the consumption of which is necessary to share the community's life style (Andreß 1998; Kangas and Ritakallio 1998). Second, both achieved functioning and actual consumption behaviour are largely the result of individual choices. Thus, not all deficiencies in consumption, achieved functioning or well-being may be qualified as deprivation. A millionaire drug user may experience poor health as a result of her habits, but could hardly be considered as deprived as a result. Establishing the degree to which a shortfall in consumption is attributable to personal choice or to factors outside the control of the individual is not clear-cut. Third, acquiring precise expenditure data is much more demanding than obtaining the same type of data on income. Household bookkeeping may be the best alternative but, due to the effort involved, it cannot be carried out over long stretches of time (Kangas and Ritakallio 1998).

Partly in response to the many shortcomings of the income-based poverty concept, a series of closely linked concepts, intended to broaden the perspective have been forged, among them social exclusion, underclass, or precarity. While the relative aspect of deprivation conceived

[8] Stability and predictability of income may itself be valuable for well-being;

as "exclusion from ordinary living patterns through lack of resources" (Whelan and Maître 2005) figures prominently in all of them, they each focus on slightly different aspects. For example, proponents of social exclusion tend to emphasize the dynamic processes through which one becomes excluded, rather than the exclusion state itself (Whelan and Maître 2005). The term underclass on the other hand denotes an enduring state on deprivation, the continuation of which gradually erases any hope for improvement and thus, generates perverse adaptations (Kronauer 1998). Lastly, precarity is concerned with instability of living standards and vulnerability to exogenous shocks, especially but not only, due to joblessness and marginal employment.

For the purposes of this study, poverty is defined using a relative rather than absolute framework. In addition, an indirect approach is taken, in that the focus is on economic resources (mainly income and assets) rather than on consumption, functionings or satisfaction with one's own economic situation. The choices are grounded both in the comparative nature of the study and in its primary focus, namely of linking public policy design and poverty outcomes. On the one hand, the adoption of a relative definition of poverty greatly simplifies cross-national comparisons. First, it avoids the necessity of actually having to construct a list of basic necessities to be covered in the absence of poverty. Second, it circumvents the careful calibration of absolute poverty lines so as to take into consideration local factors (such as climate for example). Finally, given that the affluence level of Central East European countries is more akin to Western developed countries than to the Third World, a relative poverty threshold that includes not only physical but also social needs is more appropriate.

On the other hand, the preference for a relative definition of poverty is justified also by the focus on the evaluation of social assistance design. Although, in principle, social assistance may be used to reduce both absolute and relative poverty, it is essentially a redistributive policy. Consequently, it is primarily a means to alter the distribution of a society's existing resources (i.e. inequality) rather than their level (i.e. the average living standard)[9]. It is the capacity of social assistance programs to reduce inequality at the bottom, rather than to ensure physical survival that is the focal point of this study.

Lastly, the resource based approach is the most suitable one for policy appraisal purposes. The stated explicit objective of social assistance programs is to provide a modicum of resources when other options have been exhausted. The goal of the programs is thus to alter an objective situation rather than a subjective one. Since perception and reality may diverge considerably, subjective poverty assessments are unhelpful in this case[10]. Similarly, while policy may occasionally take a paternalistic stance[11], the aim is usually to provide an additional

[9] Historically, the reduction of absolute poverty has been achieve through economic growth rather than through redistribution.

[10] Consider for example a program that keeps the poor in poverty but makes them more accepting and content with their situation.

[11] For example, by encouraging certain types of consumption through the provision of in-kind rather than cash benefits.

opportunity rather than to directly determine individual choices and life-styles. As such, a focus on resources is preferable to one on consumption and living standards. Finally, while capabilities and functionings represent a promising new avenue, their operationalization and measurement beyond health and human capital indicators is often problematic. Moreover, functionings are the final result of many intertwined causal processes, biological, environmental, social, economic, psychological etc. Disentangling the role of one policy in this context may be unfeasible. And having economic resources may ultimately be considered one capability among many.

1.3 PUBLIC POLICY AND POVERTY

Poverty, especially in its absolute (but also in its relative) form, has long been the target of collective action, initially by private actors such as the Church and later by the State. The first systematic attempts at tackling the poverty problem, the English Poor Laws, date back to the XVII-th century (Nelson 2004), practically constituting the oldest form of national social policy in the modern world. To some extent, the early beginnings of social assistance are also due to the recognition of the many harmful social outcomes poverty brings along. The rationales for public policy to limit/eliminate poverty are examined next.

1.3.1 A CASE FOR PUBLIC INTERVENTION?

Regardless of which precise definition or measurement is adopted, poverty, and some forms of inequality more generally, pose deep ethical questions. First of all, the existence of deep material deprivation is at odds with our intuition that all human beings have intrinsic value and are worthy of respect. Financial poverty seems to be the single strongest determinant of personal wellbeing (Gallie and Paugam 2002). It is not only material comfort that is at stake, but the normal psychological and social functioning of the person. On the psychological level, living in poverty entails higher levels of stress due to continuous facing of financial shortages, frustration due to the failure to realize one's life plans, reduced moral, feelings of humiliation and social devaluation, low self-esteem and a sense of being stigmatised (Walker 1998; Gallie and Paugam 2002). The impact of being deprived is all the more noxious in affluent societies, as the contrast with the rich brings one's poverty in sharper focus (Whelan and Maître 2005).

Lack of sufficient material resources, especially in its extreme forms, impedes a person's full personal development. Thus, a strong case can be made that a modicum of resources should be made available to everyone, as a precondition to enabling individuals to seek self-realization. The argument becomes even more compelling if viewed from an intergenerational perspective. If parental resources are decisively consequential for their children's life chances, fairness towards the younger generation presupposes absence of excessive material hardship in the parental cohort, so as to ensure equality of opportunity (Sefton 2006). Finally, if one accepts diminishing

marginal utility of income and/or other valuable resources, very large differences in the distribution of resources are problematic to justify on normative grounds.

On the social level, integrative institutions tend to malfunction in the case of the poor. Low incomes put strain on family relations, triggering lower satisfaction levels with family life, bringing about conflict and ultimately family break-up (Gallie and Paugam 2002). Inability to participate in the customary life-style risks engendering social isolation. Research evidence points to the fact that the lowest income groups have the scarcest social contact and that they feel the most isolated (Böhnke 2008). Even when the range of their social network is not markedly smaller, the poor are more likely to be dissatisfied with their social relationships, indicating a qualitative deficit in their social bonds(Gallie and Paugam 2002; Böhnke 2008).

From a political point of view, deficit of material resources, especially in the long run, is prone to prompt a handicap in terms of power (Laski 1974; Kronauer 1998; Sefton 2006). Groups that are barred from participating in the power-sharing process risk becoming politically alienated and detached from the political institutions of the society they live in. Disappointed with the democratic game, they are in peril of becoming supporters of various forms of extremism.

On a more general note, one should bear in mind the deleterious effects of material scarcity on social integration. Continuous long-standing poverty brings about not only dissatisfaction with the political system but also with the societal one. The poorest strata often display less solidaristic attitudes, are more intolerant and less trustful (Whelan and Maître 2005). Ultimately, marginalization of a significant share of the population threatens to muster conflict and to endanger social cohesion. Feelings of resentfulness, frustration and powerlessness are conducive to social polarization, tensions and conflict and risk undermining the very fabric society is built upon.

To sum up, normative consideration regarding both the individual and the society militate in favour of public intervention to reduce relative deprivation resulting from large inequalities. A parallel argument can be made on efficiency grounds. Aside from the intrinsic value we might place, as moral beings, on individual self-fulfilment, material deprivation is counterproductive as it results in loss of human capital, both through lack of investment and through psychological strain. Therefore, from a micro perspective, relative deprivation is unambiguously negative as it causes valuable productive resources to be wasted. Much more controversy surrounds the relationship between inequality and efficiency, at the macro level. A straightforward and intuitive argument states that inequality, by encouraging risk-taking, entrepreneurship etc., is conducive to economic growth. Yet, the empirical evidence behind this assertion is rather thin. On the contrary, high inequality seems to be associated with wasteful management and lower growth (Lipton and Ravallion 1995). In addition, redistributive public intervention may reduce economic insecurity and hence induce risk-averse individuals to innovate, take risks and adapt to take advantage of existing opportunities (Sefton 2006).

Given the ethical quandaries, as well as the negative externalities brought about by the existence of economic deprivation, there is a strong case to be made for public intervention to prevent, combat or otherwise alleviate the phenomenon. If the goal of public action in this context is relatively clear, the precise means through which the goal may be achieved are subject to much more controversy. Since Western liberal societies have accepted market mechanisms as the principal allocators of resources, altering the existing distribution entails either changing the rules by which the market operate so as to achieve more equality or redistributing "outside" the market[12]. The distributive impacts of government economic regulations and institutions undoubtedly represent a crucial public policy topic that has received relatively little attention[13]. Instead, mainstream research on public redistribution has focused on the tax-benefit system, as the main tool through which governments may alter distributional outcomes in their societies. Indeed, unlike other types of policies, the tax-benefit system has redistribution as one of its explicit goals. The case for redistribution "outside" the market through progressive taxation and benefit transfers is reviewed in the following section.

1.3.2 SHOULD (AND CAN) WE REDISTRIBUTE?

Is public policy in general and redistribution in particular, desirable as a way to reduce relative poverty and inequality? Even admitting that deprivation is best avoided or counteracted, it is not clear that public action can or should make a difference. Standard neoclassical economics posits and equity-efficiency trade-off (Atkinson 1989; Stiglitz 2000; Blank 2002; Barr 2004). The inverse relationship arises because, in a static framework at least, redistribution in itself is a costly activity. Taxation[14] not only consumes resources directly (through administrative costs for example), but it lowers the relative benefit of working and saving relative to leisure and consumption. Clearly, the equity-efficiency trade-off has consequences for public efforts to address poverty and inequality. Its relevance however depends crucially on what the mechanisms behind poverty and extreme inequality are. Thus, for public intervention to play a beneficial role, a clearer account of the causes and origins of poverty and inequality is needed. Unfortunately, social theory can provide us only with "weak" and inconclusive causal accounts of poverty (Rein and Winship 1999).

Three broad types of explanations have been put forward to account for the existence of deprivation. The first one emphasizes poverty's idiosyncratic character. It posits that becoming

[12] Redistribution cannot be fully outside the market as, whatever its peculiarities, it is bound to have effects that feed back into market allocation.

[13] On the role that institutions play in structuring and enabling economic activity see North, D. (1990). Institutions, institutional change and economic performance. Cambridge, Cambridge University Press.; for an argument against state intervention in economic activities see Hayek, F. A. (1939). Freedom and the Economic System. Chicago, University of Chicago Press, Hayek, F. A. (1976). Law, legislation and liberty. Vol. 2 The Mirage of Social Justice. London, Routledge & Kegan Paul Ltd.; for an opposite view, see Danziger, S. and R. D. Plotnick (1986). "Poverty and Policy: Lessons of the Last Two Decades." The Social Service Review **60**(1): 34-51.

[14] Taxation may be explicit or implicit by benefit withdrawal.

poor is the outcome of a series of personal free, unconstrained choices. In this sense, poverty is "voluntary", the result of specific individual preferences (for working less, saving and investing less etc.)[15]. If this is the case, redistributive antipoverty efforts by the state are neither required (since the poor themselves are solely responsible for their own plight), nor desirable since they exacerbate instead of solving the problem[16]. To be sure, if the experiencing of poverty is due to a personal distaste for productive activity, public redistribution only encourages the poor to evade integration through work and to organize their lives around public transfers. Since these transfers are financed through levies on others' productive work, public transfers become problematic both from a moral perspective (since they support "undeserving" poor) and from an efficiency one (since they discourage work and saving). If poverty is the result of the poor's own human failings, public policy should try to address those failings rather than redistribute[17]. Redistribution will only create a "welfare trap" and thereby perpetuate poverty[18]. The first historical attempts to tackle poverty have, in fact, been based on such a view[19]. More recently, these ideas have resurged in the context of persistent high joblessness rates, especially in Europe. In both cases, social control rather than redistribution becomes the focus of public policy.

The remaining two causal accounts of poverty emphasize less the individual choices of the poor and more factors outside their control, such as institutional patterns, economic cycles, social stratification and mobility patterns, specific life stages etc. Institutions, in particular, play a special role structuring the opportunities and barriers for resource acquisition in a society. Therefore, they have the potential to systematically disadvantage some groups relative to others. The most simple and compelling example is that of racial, ethnic, gender etc. discrimination which has served to keep some groups permanently in a lower socio-economic position. Another institutional mechanism that has been pointed out as closely linked with poverty and inequality is the institution of the family. Growing up in a poor family is associated with multiple adversities such a socialization deficit, exposure to deviant attitudes and behavioural models, lack of social control, spatial segregation and isolation, all of which combine to create particular adaptations that have the ultimate effect of transmitting poverty to the next generation. In this account, poverty is due to personal characteristics, albeit not ones that the poor themselves have freely chosen. Children simply "inherit" the disadvantaged state of their parents (Gallie and Paugam 2002; Gallie and Paugam 2004). Finally, due to the fact that income from work has become the main source of income in modern societies, labour market institutions are especially salient to the

[15] A similar argument is made by Milton Friedman with respect to inequality, Friedman, M. (1953). "Choice, Chance, and the Personal Distribution of Income." Journal of Political Economy **61**(4): 277-290.
[16] They are also paternalistic in that they do not respect the poor's "choice" of lifestyle.
[17] To a large extent this has been the approach of liberal economists that have emphasized human capital development and job creation as better ways to tackle poverty than redistribution Brady, D. (2005). "The Welfare State and Relative Poverty in Rich Western Democracies, 1967-1997." Social Forces **88**(4): 1329-1364.
[18] A more thorough discussion of these arguments is found in Chapter 5.
[19] The English Poor Law was clearly concerned with public support destroying the "moral" incentives for the poor, and so imposed the very harsh test of the workhouse Barr, N. (2004). Economics of the Welfare State. Oxford, Oxford University Press.

form of the income distribution. Some authors have went so far as to identify lack of a job or too low earnings as the main culprits behind poverty and deprivation (Johansson 2002). Some categories of workers, such as the low skilled, older workers or new entrants are known to face more hurdles in achieving labour market integration. In the long run, inability to gain access to employment or weak attachment to the labour market is likely to entail marginalization and confinement to survival strategies (Kronauer 1998). It should be kept in mind though that exclusion from the labour market does not automatically trigger poverty (for example, housewives or early retirees seldom belong to the ranks of the poor). On the other hand, employment per se does not guarantee well-being. Low paying jobs are often insufficient to provide enough resources to escape poverty. Moreover, low paying jobs are also more insecure and provide few opportunities for promotion and advancement. Consequently, individuals holding low quality jobs are more likely to be permanently trapped in a stratum of working poor.

The life-course perspective shares with the previous theories the emphasis on structural factors, but diverges in that it recognizes that poverty is often transitory rather than permanent. Accordingly, it adopts a dynamic rather than static point of view, focusing on the critical moments during lifetime when vulnerability to experiencing poverty increases (Andreß and Schulte 1998). Special attention is paid to mediating processes and triggering events (such as finishing education, retirement, becoming divorced, ill health etc.) that are likely to prompt a poverty spell.

If the explanation for poverty is at least partly structural, as the last two explanations assert, there is a larger role for public redistribution to play. Yet, is redistribution with the aim of eliminating or at least reducing poverty possible? Since all reshuffling of market income carries behavioural incentives, it is not clear that the tax-benefit system though designed to be redistributive will ultimately be so. Firstly, depending on their exact design and starting conditions, tax-benefit systems that are theoretically designed to redistribute towards the bottom may eventually determine regressive outcomes. For example, given a particular set of conditions, taxation of inheritances can be shown to increase rather than decrease income inequality (Davies 1986). Similarly, taxation may increase pre-tax inequality both by lowering effort and by reducing risk aversion[20] (Sinn 1995). This class of arguments goes back to the original conflict between redistribution and efficiency, via negative effects on economic incentives. Though a classic supposition in classical economic theory, the counterproductive nature of redistribution remains to be verified empirically.

In fact, despite this argument's theoretical plausibility, the empirical evidence to support it remains thin (Atkinson 1995; Blundell and MaCurdy 1999; Bloom and Michalopoulos 2001; Moffitt 2002). Even when empirical evidence does seem to confirm theoretically derived

[20] The same paper makes the case that the insurance aspect of redistribution, if taken to extreme may lower efficiency as moral hazard with regard to risk taking sets in Sinn, H.-W. (1995). "A Theory of the Welfare State." The Scandinavian Journal of Economics **97**(4): 495-526. The insurance aspect of redistribution is discussed in the next section.

predictions, interpretation is not clear-cut and contradictory findings have to be reconciled[21]. Conflicting results are obtained depending on the specifics of the research design. Generally, macro level studies that analyze the impact of welfare state spending on economic indicators such as growth, unemployment, GDP/capita and so on, in rich Western democracies fail to find any negative effects[22] (Atkinson 1995; Aghion, Caroli et al. 1999; Headey, Goodin et al. 2000; Brady 2005; Wilensky 2006).

Notwithstanding their usefulness in testing prima facie predictions derived from theory, macro level studies cannot provide an ultimate answer on the efficiency-redistribution trade off. Since an observed macro-level pattern is compatible with several explanations, macro level studies cannot resolve issues of interpretation. Instead, microeconomic theory on mechanisms and corresponding microeconomic empirical testing are required. Albeit not in short supply, microeconomic models have usually suffered from oversimplification and a lack of focus on the institutional forms in which redistribution is embedded (Atkinson 1989; Atkinson 1995). Most importantly, they continue to assume perfectly competitive and perfectly informed markets where clear cases of market failure have been documented. The existence of market failures often mutes or attenuates the redistribution- efficiency conflict (Atkinson 1989; Barr 2004). Extending the classical theoretical model of saving and investment to incorporate the case of imperfect capital markets, Aghion et al. make the case that redistribution may be growth enhancing by providing more opportunities for investment, improving borrower incentives and reducing macroeconomic volatility (Aghion, Caroli et al. 1999). Likewise, accounting for the fact that involuntary unemployment is an uninsurable risk[23] that cannot be organised on actuarial bases makes subsidization of unemployment (in effect redistribution) desirable on efficiency grounds (Barr 2004).

Issues of market failure aside, the equity efficiency trade-off is rooted in another questionable assumption. In its basic formulation, welfare economics is based on the utilitarian desire to maximize the abstract concept of total utility, not material welfare. To arrive at testable empirical formulations, it is further assumed that individual utility depends solely on one's own level of material possessions. This is however a very stringent assumption. In particular, individual utility may partially depend on others' level of material resources[24] (Barr 2004;

[21] Most studies have focused on the effect of replacement rates implicit in unemployment and means-tested income support benefit on hours worked; although these two programs are generally found to have some negative effects on labour supply, findings indicate that it not replacement rates but rather other program features such as duration or the enforcement of the job search requirement that matter most Atkinson, A. B. (1995). "The Welfare State and Economic Performance." National Tax Journal **48**(2): 171-198.

[22] In fact, macro level studies are more likely to find positive than negative effects of welfare state on economic performance.

[23] Obviously, the biggest problem in insuring unemployment is moral hazard. That however is not all. Unemployment risk is not entirely individual, as during recession involuntary unemployment increases over the board.

[24] The most prominent example is that of positional goods or status markers Hansson, S. O. (2004). "Welfare, Justice, and Pareto Efficiency." Ethical Theory and Moral Practice **7**(4): 361-380.

Hansson 2004). Taking into account such externalities modifies efficiency equilibriums and consequently, affects the relationship with equality and redistribution.

The efficiency-equality conundrum has been the most discussed rationale against public redistribution. There are however other types of counterarguments that may be put forward. One line of reasoning asserts that even if efficient, redistribution through taxes and benefit intrudes too much into individual freedom and autonomy, and as such should be avoided (Hayek 1939; Hayek 1976; Barr 2004). The point is no longer a conflict between equality and efficiency but one between equality and freedom[25]. Unlike the case of efficiency, the incompatibility is established on normative grounds and, as such, cannot be refuted empirically. Nevertheless, the argument does not stop here. The conflict between equality and freedom hinges on whether freedom is framed negatively, as absence of coercion or positively, as an ability to act (Laski 1974; Barr 2004). If the second position is taken, liberty actually necessitates a modicum of security and equality[26].

Thirdly, even if redistribution can be shown in theory to be technically possible and normatively desirable, its implementation is much trickier. Since redistribution is to be carried out by a state apparatus and its leaders who have their own interests and agenda, transfers that were originally designed for the poor are at risk of being hijacked by other more politically powerful vested or rent-seeking interests[27] (Hayek 1976; Lipton and Ravallion 1995; Stiglitz 2000). A study of developing and middle-income democracies found that neutral and effective bureaucratic institutions is instrumental in poverty alleviation[28] (Henderson, Hulme et al. 2007).

Finally, even supposing that redistribution is feasible, normatively desirable and a dependable state apparatus to implement it exists, it may still fail due to political economy reasons. Since Western states are also representative democracies, taxes and benefits that reduce inequality and benefit the poor must enjoy popular support in order to be adopted and subsequently survive. Seemingly, in a society in which collective decisions are taken through universal vote, public demand for redstribution should increase in the face of higher inequalities. However, a more thorough analysis shows that the actual public support redistributive programs enjoy depends on additional factors such as whether they are directed solely to the poor or

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[25] This is the libertarian position.

[26] For an argument refuting the normative contradiction between equality and efficiency see Wilkinson, T. M. (2010). Deontic Efficiency and Equality. Essays on Philosophy, Politics and Economics. C. Favor, G. Gaus and J. Lamont. Stanford, California, Stanford University Press**:** 159-172.

[27] This has actually been shown to occur in developing countries Lipton, M. and M. Ravallion (1995). Poverty and Policy. Handbook of Development Economics. J. Behrman and T. N. Srinivasan. Amsterdam, Elsevier. **IIIB:** 2551-2657.

[28] The role of effective bureaucracies in fostering economic growth has long been documented. See for example, Rauch, J. E. (1995). "Bureaucracy, Infrastructure, and Economic Growth: Evidence from U.S. Cities during the Progressive Era." The American Economic Review **85**(4): 968-979, Knack, S. and P. Keefer (1997). "Why Don't Poor Countries Catch Up: A Cross-National Test of an Institutional Explanation." Economic Inquiry **35**(3): 590-602, Stark, D. and L. Bruszt (1998). Postsocialist Pathways. Transforming Politics and Property in East Central Europe. Cambridge, Cambridge University Press, Evans, P. and J. E. Rauch (1999). "Bureaucracy and Growth: A Cross-National Analysis of the Effects of the "Weberian" State Structures and Economic Growth." American Sociological Review **64**(5): 748-765.

encompass middle class families as well (Sen 1995; Cantillon, Marx et al. 2003; Nelson 2004), on whether they are viewed primarily as redistributive or insurance devices (Moene and Wallerstein 2001) and on the phase of the economic cycle (Danziger and Plotnick 1986).

To sum up, redistribution carries its own problems and risks. Yet, despite the substantial controversies that surround it, redistribution through the tax-benefit system remains a centrepiece of modern government. While tax financed cash transfers are present in virtually all developed capitalist economies, the exact content, design and therefore outcomes vary substantively. A more in depth discussion of the distinctive attributes and outputs of transfer programs, generally termed social protection or the welfare state, is presented in the next section.

1.4 THE ROLE AND FUNCTIONING OF THE WELFARE STATE

The arguments put forward thus far should have made it clear that achieving poverty reduction through public intervention is an inherently complex matter, fraught with unforeseen setbacks and shifting dilemmas. Nevertheless, public intervention aimed at poverty prevention/ reduction does take place, under a variety of programs and policies.

Established during the latter half of the XIX-th century, the modern welfare state has become a ubiquitous presence in capitalist economies. It nowadays accounts for a large share of public outlays in virtually all rich Western nations. Its exceptional expansion in the aftermath of the Second World War, and subsequent retrenchment during the '80s and the '90s have been the subject of much controversy (Pierson 1996; Myles and Quadagno 2002; Wilensky 2006). One aspect that has received a great deal of attention is the redistributive side of the welfare state. On the one hand redistribution might be attacked as excessive. On the other hand, it is claimed that the ultimate purpose of the welfare state is to prevent poverty and destitution, and redistribution is its main tool in achieving such goals (Behrendt 2002; Nelson 2004; Sefton 2006; Wilensky 2006). Yet, despite the visible progressive nature of both cash transfers and provision of basic social services such as health-care or education, it is worth remembering that the origins of welfare state are to be found not so much in a desire to redistribute as to insure.

The origin of the welfare state has been ascribed to the new needs created by capitalism and industrialism. In modern economic parlance, the welfare state is a response to the inability of markets to allocate resources efficiently in some areas of the economy, i.e. market failure (Barr 1992; Stiglitz 2000; Barr 2004; Kleiman and Teles 2006). In particular, informational barriers create specific pitfalls[29] in insurance and capital markets that render certain types of income loss uninsurable on private markets. As such, public provision is warranted on efficiency grounds. In fact, current social security programs continue to be broadly based on the insurance principle, and may be viewed as "collective action to protect individuals against income deficiencies" (Hill

[29] Moral hazard and adverse selection are the most important informational problems discussed in the economic literature on insurance.

2006). Furthermore, public provision of income loss insurance does not have to be redistributive. In principle, its parameters may be set in such a way that primary market allocation inequality is maintained or even increased[30] (Hill 2006) [31]. Finally, it is worth noting that the redistributive effects of a program may be different, depending on the time frame considered, as much of the redistribution taking place at any given moment may be cancelled out over the lifetime (Sefton 2006).

Thus, failures in the insurance and credit markets are by themselves enough to justify the existence of publicly provided social insurance programs that constitute the core of the modern welfare state. On the other hand, the existence of market failures would not seem to justify the *current form* of most welfare states. Notably, neither the progressive bias in contributory programs, nor the presence of non-contributory ones should be required based on inefficiencies in the insurance and credit markets. Before discussing this argument at length, let us note that redistributive arrangements are in principle possible only within a public, compulsory program. Private, actuarial insurance arrangements preclude any vertical cross-subsidization between different risks. Therefore, the welfare state has the advantage of being able to combine insurance with redistribution (albeit it does not have to), whereas purely private, market-based insurance cannot (Barr 1992).

While the efficiency enhancing role of contributory social transfers in providing insurance against catastrophic income loss are well established, universal and means-tested programs are often presumed to serve exclusively redistributive purposes. In effect, the insurance and redistributive functions of the welfare state are assumed to be separate and embodied in separate types of programs, i.e. contributory and non-contributory. The result of this separateness is a two-tracked system, with (marked) differences in the generosity and political acceptance of the two types of programs[32].

While the association of contributory benefits with insurance and non-contributory ones with redistribution might appear intuitive, the distinction is, in essence, illusory. Both contributory and non-contributory benefits simultaneously serve both insurance and

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[30] A special case of course is unemployment insurance that tends to be redistributive in a cross-sectional income centered analysis; however, earnings related unemployment insurance may be regressive in the long run if higher and lower earners have the same propensity of becoming unemployed; moreover, an unemployment insurance system may be regressive is assets and non-labour income are considered alongside earnings.

[31] This actually was the case in the Soviet welfare state where wage differentials were supplemented by transfer differentials as a way to increase the efficiency of labour allocation; see Chapter 2 for a more in-depth discussion of this point.

[32] Despite their constituting a relatively small share of public expenditure, many reform efforts have been targeted at means-tested cash benefits and other programs targeted towards the poor; while sometimes cuts affected core contributory programs as well, these tended to be small and inconsequential for the general structure and outlook of the programs; as such, contributory programs proved to be politically much more resilient to retrenchment Sen, A. (1995). The Political Economy of Targeting. Public Spending and the Poor. Theory and Evidence. D. Van de Walle and K. Nead. Baltimore, John Hopkins University Press**:** 11-24, Skocpol, T. (1995). Social Policy in the United States: Future Possibilities in Historical Perspective. Princeton, New Jersey, Princeton University Press, Myles, J. and J. Quadagno (2002). "Political Theories of the Welfare State." The Social Service Review **76**(1): 34-57, Wilensky, H. L. (2006). Social Policy: Is There a Crisis of the Welfare State? Handbook of Public Policy. B. G. Peters and J. Pierre. London, Sage Publications**:** 201-217.

redistribution purposes. On the one hand, contributory programs may be designed so as to increase the benefit-contribution ratio for low-wage earners, thereby redistributing vertically from the better-off to the poor. On the other hand, by providing benefits in case of income loss or other contingencies (such as for example, having children), non-contributory benefits do serve an insurance purpose, in the sense of providing some sort of security in case of adverse economic circumstances. Absent a secure and stable attachment to the labour market, the contributory logic breaks down and insurance may be achieved only through non-contributory transfers. Universal and conditional benefits may be particularly adapted to provide insurance for the vulnerable categories such as low-wage workers, carers and other categories whose link to the labour market is tenuous. Since these groups face larger risks of experiencing income shocks and larger probable losses, as well as higher transaction costs when attempting to insure on the market (Dercon, Bold et al. 2008), providing them with insurance may potentially bring efficiency gains. More generally, the poor have little resources to cushion the impact of an adverse event, and therefore may be forced to resort to practices that while tackling the emergency, are counterproductive in the long term such as postponing health-care, failing to invest in education, selling income generating assets, engaging in crime etc. (Emory Burton 1992; Barrett and Carter 2005; Ladány and Szelenyi 2006; Stricker 2007). Consequently, non-contributory benefits that benefit the poor are efficiency enhancing to the extent that they prevent or minimize behaviour that is harmful both for the recipients themselves and for society at large. Ultimately, all welfare state programs may be conceptualized as an insurance contract entered in behind a veil of ignorance (Barr 1992).

To summarize, the insurance and redistributive function of the welfare state are analytically distinct. In practice though, the distinction becomes blurred. Traditional contributory social insurance programs incorporate redistributive features whereas non-contributory, universal or means-tested ones may be also conceptualized as insurance tools[33]. Obviously, both insurance and redistribution are consequential to addressing poverty concerns. Essentially, both insurance and redistribution are put into practice by providing resources to individuals or families afflicted by an unfavourable economic condition, be it sickness, unemployment, low wage, lone parenthood, old-age, disability etc. The conventional wisdom treats contributory transfers as primarily aimed at consumption smoothening while non-contributory ones as directly geared towards poverty prevention and/or alleviation. Nonetheless, in principle, all transfer programs have distributional consequences and thus, may mitigate or, on the contrary, advance relative poverty. Indeed, programs that have been designed with consumption smoothening in mind may

[33] The double functionality of the welfare state is also apparent in political theories regarding its emergence and subsequent development. Theories that have related the origin of the welfare state to the needs imposed by capitalism and industrialism have in fact emphasized its insurance functions. Conversely, explanations based on the political actors and political institutions have highlighted its redistribution outcomes.

be more effective at poverty reduction than transfer programs explicitly designed as anti-poverty tools (Nelson 2004; de Neubourg, Castonguay et al. 2007).

On a different level, the rationale behind the welfare state construction is not only economic or distributional, but also social and political. By pooling risks across income, occupation, education, age and class, the welfare state represents a powerful integrative institution (Myles and Quadagno 2002; Ferrera 2005). By fostering social cohesion and national solidarity, the welfare state has in effect become an important pillar and identity symbol of the modern nation state. The same integrative function though may be interpreted from a different perspective. Marxist critics of the welfare state have asserted that by providing for the most basic needs of its workforce, the state has created a powerful instrument of social control that allows for the peaceful survival of the capitalist economic system (Barr 2004). Control and cohesion ultimately are different aspects of the same basic mechanism.

1.5 POLICY DESIGN AND THE ANTI-POVERTY ROLE OF THE WELFARE STATE

The modern welfare state is a complex institution that does not easily fit in the classical efficiency-equity trade-off. Rather than being a simple drain on economic resources, it addressed and bridges important gaps left over by the functioning of the markets. At the same time, it redistributes resources both horizontally and vertically, while serving as an integration tool. Finally, public transfers have a key role to play in public efforts to deal with poverty and material hardship.

The anti-poverty role of the welfare state in various types of settings has received special scrutiny (Rodgers 1988; Emory Burton 1992; Kolberg and Ferge 1992; van de Walle and Nead 1995; Tóth 1999; Grinspun 2001; Behrendt 2002; Cantillon, Marx et al. 2003; Nelson 2004; Brady 2005; de Neubourg, Castonguay et al. 2007; Handler and Hasenfeld 2007; Barrientos and Hulme 2008; Noelke 2008; Ziliak 2009). At this point, it should be noted that transfer programs within the welfare state are not the only anti-poverty tool available for public action. On the contrary, some economists have argued that the best way to address poverty is not through direct social transfers but by growth inducing macroeconomic policies and free markets[34] (van de Walle and Nead 1995; Subbarao, Bonnerjee et al. 1997; Grinspun 2001; Hagerty, Vogel et al. 2002; Barrientos and Hulme 2008; Schmidt 2009). These would bring about a "rising tide for all boats", i.e. an overall increase in incomes across the board that would "trickle down" to the poorest members of society. Apart from the fact that the validity of the relationship between economic growth and poverty in all contexts (the "trickle down" theory) is disputed (Aghion, Caroli et al. 1999), the argument only stands if poverty is defined in absolute terms. On the

[34] This has also been the approach adopted by the World Bank in relation to anti-poverty strategies in developing and transition countries. See the Poverty Assessment Reports of the Word Bank.

contrary, if poverty is viewed as primarily a distributional issue, economic growth alone cannot address it unless it is shown that it also brings about an equalization of resources.

Thus, tackling relative poverty, in principle, requires explicit redistribution. There are however many channels through which the state may redistribute. Rather than providing the poor with money, it can provide them with services that may alter their position in the labour market such as health, education, work experience, child-care, or training. Ultimately, it may directly provide them with a job that pays an above poverty level wage or it may subsidize their employment in the private sector. In effect, these types of interventions aim at addressing the root cause of poverty (for example, unemployment, low-skills, ill-health, or caring responsibilities) rather than the symptoms (lack of income). In a certain sense, they may be deemed 'investment', as public authorities attempt to make the poor self-sufficient and able to exit poverty without public benefits[35]. A reliance on services and support for the poor rather than transfers is an indirect, two-step approach to addressing poverty motivated by the belief that paid work is the best source of individual and family welfare. It is also, to some extent, a paternalist strategy that assumes that the poor are best provided with certain types of consumption rather than simply resources. Lastly, it is based on the conviction that material deprivation may be best 'solved' by a one-time energetic intervention rather than through on-going public action.

Albeit appealing in its emphasis on self-sufficiency and autonomy, the "investment" strategy critically hinges on several implicit assumptions. First, it identifies the proximate causes of poverty in some deficient characteristics of the poor themselves (such as, for example, lack of education). By focusing on addressing these individual shortcomings, it tends to overlook the role of structural or institutional factors in the generation of poverty (for example, the role of labour market institutions, economic cycles, family patterns etc.). It ignores the fact that inequality may be embedded in a society's structure and thus not addressable by individual level measures. Second, since it is an indirect strategy, it presupposes both the correct identification of poverty's sources and the power of altering the underlying causes. To illustrate, if a person is presumed poor due to its poor skills, public programs must be able to both pinpoint why the existing skills are poor and to provide the person with "better" ones. Obviously, both steps involve considerable complexity and may be problematic. For example, what should be done if a person is poor because she is a lone parent? Third, the "investment" approach assumes that relative poverty and inequality may be dealt with "once and for all", by providing the current generation of poor with extra specific resources. However, if inequality at the bottom is due to structural factors, rather than individual differences, addressing it requires continuous rather than one-time efforts.

Finally, poverty may be addressed directly by providing income resources to the poor. This is what the welfare state does. It avoids the complexities of the two-step strategy by aiming

[35] Probably the most notorious example of an "investment" approach being used to "solve" poverty is president Lyndon Johnson's "War on Poverty" program carried out in the 1960s and early 1970s.

not at the root causes, but at the 'symptoms' or effects on poverty[36]. As mentioned, public transfers of monetary resources may take a variety of forms. Broadly speaking, public cash transfers may be grouped into universal, contributory and means-tested. Whereas the first two are usually justified in terms not related to poverty, means-tested benefits have poverty reduction as an explicit objective.

Whereas means tested programs vary greatly in their precise details, they all share one characteristic, namely the fact that they attempt to separate the poor from the non-poor and to award public resources only to the former[37]. This is usually achieved by imposing some sort of resource conditionality, as a prerequisite for receiving the transfer. The stated goal is to redistribute more efficiently, by directing public resources only at individuals or families deemed poor and hence, minimizing the taxation level required for the financing of the benefit program (Akerlof 1978). The means-test itself may take a variety of forms, including income, asset, demographic, work-based tests, or a combination of them. Obviously, each type of test has its particular advantages and weaknesses[38]. Which of them is most successful in identifying the poor remains a matter of controversy (Barr 1992; Atkinson 1995; Ravallion and Datt 1995; Van de Walle 1995; Subbarao, Bonnerjee et al. 1997).

Despite their differences, all these targeting mechanisms share the same underlying purpose, namely distinguishing between the poor and the rest. Albeit prima facie desirable both on efficiency (less taxation required to finance it) and equity grounds (as all the available resources go in theory to the poor), the principle of targeting poses itself a series of problems, regardless of which concrete test is used to implement it (Sen 1995; Boadway, Marceau et al. 1999; Offe 2005; Sefton 2006; Bougheas, Dasgupta et al. 2007). Firstly, as long as the characteristic on which the test is performed is controlled by the recipient[39], there are always behavioural effects. Put differently, potential recipients are incentivised to alter their own characteristics so as to qualify for the receipt of the conditional benefit. This may lead to undesirable behaviour such as limiting one's labour supply, shifting from saving towards consumption, family break-up and so on. Secondly, the implementation of the test itself requires administrative resources and is, thus, costly. Moreover, perfect implementation is infeasible, both due to principal-agent problems regarding front line administrators and social workers and to the

[36] That is not to say that it may not affect the root causes as well.
[37] The term used for this separation is targeting.
[38] For example, income is the probably most difficult to measure, while demographic characteristics are more easily observable; work tests have been advocated based on the idea that they impose an extra non-monetary cost, that the poor are more likely to pay than the non-poor; on the other hand, they are relatively expensive is jobs are provided directly and available evidence points towards them advantaging not so much poor, labour constrained families, but rather non-poor, non constrained ones Ravallion, M. and G. Datt (1995). Is Targeting through a Work Requirement Efficient? Some Evidence for Rural India. Public Spending and the Poor. Theory and Evidence. D. Van de Walle and K. Nead. Baltimore, John Hopkins University Press**:** 413-444.
[39] This is of course the case of many resource related household traits such as income, assets, labour market status, number of children etc.

impracticality[40] of filtering out all fraudulent claims. As a result, there will always be some poor applicants misclassified as non-poor and vice versa, resulting in decreased program efficiency. Thirdly, since being poor is usually an undesirable trait and receipt of means-tested benefits is closely associated with poverty, participation in the program may create in itself disutility in the form of stigma. In turn, stigma not only imposes an additional cost on recipients but creates serious problems of non-take-up, and consequently, diminishes the effectiveness of the program in addressing poverty. Specific program features such as hassle and very intrusive procedures in verifying entitlement, workfare requirements etc. may exacerbate the stigma problem. Finally, programs that benefit a narrow section of the population generally lack political support. If dealing with poverty requires on-going redistribution, relying on politically unpopular programs to achieve poverty reduction may be self-defeating in the long-term. Given all these issues, what role do means-tested cash transfers play in addressing poverty? This is the main question that this thesis will try to answer.

Clearly, the volume leaves unanswered questions about many aspects of individual well-being that might be impacted by the presence of means-tested benefits[41]. By focusing narrowly on income and assets, extensiveness is traded for depth. Even so, the complexities and difficulties inherent in appraising means-tested benefits remain formidable. Barring a pure experimental design, the task of evaluating policies is bound to come up against the conundrum of constructing a counterfactual from observational data (Bergh 2005). The difficulties are many and the proposed solutions not always fully satisfactory. Validity threats, self-selection, regression to the mean, confounding factors at the country level, non-random missingness and panel attrition to name just a few, cannot always be ruled out. Nevertheless, despite these limitations, it is the aim of the present study to make a significant contribution to the scholarly and policy debates on means-tested public transfers and their role in shaping inequality and poverty in Central and Eastern Europe. The reader will judge whether it has succeeded or not.

[40] The basic problem lies in the asymmetry of information. The applicant knows more about herself and program rules and thus may manipulate information so as to appear eligible.

[41] For example, the effects on family formation and break-up, on the educational and behavioural outcomes of children, on labour skills, on health outcomes etc. Some of these issues have been taken up in the American literature on AFDC/TANF. See Garfinkel, I., S. McLanahan, et al. (1988). Child Support and Dependency. Beyond Welfare. New Approaches to the Problem of Poverty in America. H. R. J. Rodgers. Armonk, M.E. Sharpe**:** 66-85, Knab, J., I. Garfinkel, et al. (2009). The Effects of Welfare and Child Support Policies on the Incidence of Marriage Following a Nonmarital Birth. Welfare Reform and Its Long-Term Consequences for America's Poor. J. P. Ziliak. New York, Cambridge University Press**:** 290-307, Morris, P., L. A. Gennetian, et al. (2009). How Welfare Policies Affect Child and Adolescent School Performance. Welfare Reform and Its Long-Term Consequences for America's Poor. J. P. Ziliak. New York, Cambridge University Press**:** 255-289.

2 POVERTY DURING SOCIALISM AND TRANSITION: TRENDS AND CHARACTERISTICS OF VULNERABLE GROUPS

2.1 INEQUALITY AND POVERTY UNDER SOCIALISM

Socialist societies have often been regarded as the closest embodiment of egalitarian ideals, at least when material well-being is considered. The egalitarianism permeating Marxist and official Soviet ideology, the lack of private property and the effort made by communist states to make available jobs, subsidized goods, and quasi-free services were all reasons to expect a relatively equal distribution of material goods. Yet, precious little empirical information is available on the extent, depth and profile of poverty during the communist era. Two factors have played a role in relegating poverty issues to a minor research topic.

On the one hand, the official ideological stance was that the socialist society has been successful in ensuring opportunities for self-realization for every individual. Moreover, Marxism claimed that all class-based inequalities, as well as scarcity will disappear under communism[42]. Both the proclaimed equalitarianism and the absence of deprivation were difficult to reconcile with the existence of poverty, whether defined in absolute or relative terms. Hence, for a long time, poverty has not been deemed an "appropriate" research field. Little data was collected to get a picture of consumption patterns or life-styles (although there is considerable variation both across time and across countries). Moreover, not only was poverty research deemed ideologically inappropriate, the official interest in consumption patterns or shortages was low. Rapid industrialization and economic growth far outweighed consumption as prioritized official objectives[43] (McAuley 1979).

On the other hand, researchers outside the socialist block tended to base their appraisal of socialist social stratification both on the official socialist ideological position and a few raw facts such as wage scales, "full" employment, wide-spread subsidization of goods and a purported universal availability of social services. For example, Jan Adam posits:

> Despite the shortcomings, the comprehensive social programmes [existent during socialism] introduced certainties: people knew that, when they reached old age or became disabled, they would receive a pension and if they became ill, they would

[42] One qualification must be added though, equality of results or rewarding "according to one's need" was considered to be achieved in communism; however, the transitional phase of socialism was to derogate from this requirement by underlining the "performance principle" embodied in the expression "to each according to his work"; For a more detailed discussion see Connor, W. D. (1977). Socialism, Work and Equality. Equity, Income, and Policy Comparative Studies in Three Worlds of Development. I. L. Horowitz. New York, Praeger Publishers: 146-175.;Yanowitch, M. (1977). Social and Economic Inequality in the Soviet Union. Six Studies. New York, M.E. Sharpe, McAuley, A. (1979). Economic Welfare in the Soviet Union. Poverty, Living Standards and Inequality. Madison, The University of Wisconsin Press, Yanowitch, M., Ed. (1986). The Social Structure of the USSR. Recent Soviet Studies. New York, M. E. Sharpe, Inc.

[43] Data on consumption patterns was not even collected until the mid 50's and official bodies that were assigned the task of inquiring and reporting on consumption issues were relatively of minor importance;

have access to health care without having to be concerned about payment. They also knew that if their children were capable, they would be able without great obstacles to get a university education and later a job.(Adam 1999)

Consequently, little has been done to investigate the actual empirical reality. Overall, a picture of homogeneity emerged in which similarities among social groups vastly outnumbered the differences. Except for a tiny elite, the rest of the population constituted an amorphous mass (Fuller 2000). As such, poverty was seen as a marginal phenomenon both by insiders and outsiders of the socialist regime (of course, the much lower living standards prevalent in the communist bloc, as well as the widespread shortages have been pointed out by Western analysts).

Yet, the homogeneity paradigm may be misleading. The socialist societies were not nearly as equalitarian as sometimes portrayed. Firstly, the emphasis put on the work ethic often contradicted equalitarian ideals. In effect, periodical anti-egalitarian movements (of which the Stalinist one is perhaps the strongest) in the official discourse attacked 'equality mongering' and re-affirmed the justice and necessity of ensuring unequal material rewards for unequal work (Lane 1971; Yanowitch 1977; Ovsiannikov 1986). Secondly, the success of the socialist plans for industrialization in economically backward countries hinged on the success in attracting workers in particular industrial sectors selected for rapid expansion as well as on encouraging acquisition of skills. Consequently, some wage differentiation to reward scarce skills and abilities seemed unavoidable in order to provide for an efficient allocation of labour. Thirdly, subsidization of goods was counteracted by huge shortages and preferential access to desired goods for some categories (for example, through enterprise based shops, access to special retail networks, priority in access to housing etc.). Fourthly, the availability and especially the quality of services such as health-care and education that were supposed to be universal, was largely dependent on one's own connections and on under-the-table payments.

Albeit poverty as such has rarely been touched upon, more data is available on inequality, stratification and mobility, as a result of research undertaken mostly in the USSR, Hungary and Poland, especially after the end of the Stalinist era. The official Marxist ideology posited that socialist societies contained two non-antagonistic classes, the working class and the peasantry and one stratum, the intelligentsia. Obviously, such an approach could not shed much light on existing economic and political inequalities. While this official stance was almost never challenged, Soviet and East European researchers have generally the occupation as the main stratification dimension[44] (Wesołowski 1966; Rutkevitch, Wesołowski et al. 1974; Wesołowski and Słomczyński 1977; Domański and Sawiński 1986; Gordon and Nazimova 1986). It was considered that one's position in the social division of labour is the most salient criterion for stratification in a socialist society. As a result, income, consumption, asset, power etc. distributions generally refer to differences between occupational categories. Another salient

[44] The quality and quantity of work performed was considered to be the most relevant differentiation criterion in a socialist society;

dimension of inequality that has been looked into, albeit to a lesser, is gender. Overall, both economic and, to a lesser extent, political inequality have been investigated.

2.2 DIMENSIONS OF ECONOMIC INEQUALITY

2.2.1 INCOME

Although there is plenty of controversy over which indicator best reflects material well-being, income amounts to the most widely used proxy. Albeit often not representative and gathered for different purposes[45], data on the distribution of earnings and wages together with agricultural production income can be used to gain a fairly accurate picture of income inequality.

In an analysis of the Soviet income distribution in the 1970's, Bergson found that inequality in terms of the 90/10 ratio was remarkably similar between the USSR and Western countries (Bergson 1984). This finding held whether income was equated to wages or household income per capita[46]. Inequality was at least as great as or greater than in Sweden, only somewhat less than in Norway and Great Britain, and considerably less than in the US or in France although not by such a large a margin as previously thought. Wage inequality is explained by Bergson in terms of three factors, i.e. scarcity of specific skills, political-ideological imperatives and planning distortions favouring certain industrial branches(Bergson 1984). While the second factor pressed for wage compression, the first and the third one acted in the opposite direction.

Analyzing the income distribution of six socialist countries, the USSR, Czechoslovakia, Hungary, Poland, Bulgaria and Romania, Walter Connor states that common measures such as Gini Coefficients, Lorenz curves, and inter-quartile ranges show that income distribution seems indeed to have been more egalitarian in the East than in the West but the difference was far from massive on the one hand, and the relative ranking of various groups in the income hierarchy resembled strikingly the pre-socialist order on the other hand (Connor 1977). The main difference between capitalism and socialism in terms of income stratification seemed to be the fact that

> "capitalism does produce some very rich people with great wealth while socialism does not; for those located through the rest of the distribution, whether in a socialist or in a capitalist economy, the difference is only quite moderate"(Connor 1977).

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[45] Usually, wage and earnings data was collected in order to help in establishing 'appropriate' wage scales, so as to stimulate the accumulation of scarce skills and to reward the performance of demanding tasks Yanowitch, M. (1977). Social and Economic Inequality in the Soviet Union. Six Studies. New York, M.E. Sharpe, McAuley, A. (1979). Economic Welfare in the Soviet Union. Poverty, Living Standards and Inequality. Madison, The University of Wisconsin Press, Yanowitch, M., Ed. (1986). The Social Structure of the USSR. Recent Soviet Studies. New York, M. E. Sharpe, Inc.

[46] In a study of inequality in Hungary and Poland, Lidia Beskid and Támas Kolosi found that household per capita income was more unequally distributed than earnings; Beskid, L. and T. Kolosi (1983). Differences in Welfare. Equality and Inequality under Socialism: Poland and Hungary Compared. T. Kolosi and E. Wnuk-Lipiński. London, Sage Publications: 106-145.

In an extensive study of Soviet inequality and poverty, Lane (1971) approximated that the ration between the best and worst paid employee in an enterprise could be on the order of 13[47], or 25-30 when all the bonuses and perks were counted. In 1940, the highest to lowest pay ratio in the USSR was 28:1 (Hamilton and Hirszowicz 1987). Večernik examined the earnings inequality in Czechoslovakia, one of the lowest in Europe (Večernik 1991). Despite smaller wage differentials among socio-occupational groups, considerable inequality in earnings was maintained along other dimensions such as gender, education, economic sector, age and finally political engagement. Even on the occupational dimension, substantial pay differentials existed according to the economic sector. During the 1960s, skilled workers in heavy industry typically earned about five time as much as skilled workers in services (Machonin 1996).

While there is some disagreement on the precise magnitude of inequality, there is remarkable consensus over the ranking of the various occupational categories (McAuley 1979; Kolosi and Wnuk-Lipiński 1983; Bokor 1984; Kolosi 1984; Domański and Sawiński 1986; Kolosi 1988). Invariably, professionals but also the administrative cadres were placed in a favourable position while unskilled workers and farmhands were placed at the bottom of the social hierarchy. Even in the most egalitarian country, Czechoslovakia, although returns to education were smaller than in the West, university-educated were still better off by the age of 50 compared to their less educated peers. Additionally, higher educational advantage materialized less in higher earnings than in better working conditions and a better quality of life (Večernik 1991).

Among the occupational strata, the collective farm peasantry found itself in the most disadvantaged position, reflecting a development strategy of financing industrialization by squeezing the agricultural sector, as well as the secondary status awarded to the peasantry by the official ideology. The initial lack of a pension system for collective farmers, the permit system for acquiring a job or a house, enforced low agricultural prices all discriminated against collective farmers[48] (Lane 1971; Yanowitch 1977; Kemény 1979; McAuley 1979; Lane 1982; Hamilton and Hirszowicz 1987). As a result, incomes were lowest in the agricultural sector and rural poverty was usually widespread. The income of Soviet collective farmers was on average only 70% that of state employees in 1960 and 80% in 1965.

In spite of often being treated as one category, blue-collar workers were far from constituting a homogeneous group. The industrialization policy favoured heavy over light industry (Yanowitch 1977). For example, awarded bonuses (as a percentage of the basic wage rate) for hazardous or arduous working conditions were higher (in the USSR twice as high) in the

[47] Estimating inequality measures is made more difficult by the fact that usually no raw data was available; instead measures were computed based on published tables and histograms which tended to group data in large and heterogeneous, for example including highest level officials and enterprise managers in the same category as foremen; the resultant inequality measures tended to underestimate the true extent of inequality;

[48] Starting with the early 60's a series of measures such as the introduction of a pension system for collective farmers in the USSR and private farmers later on in Poland, improved pay and working conditions on state and collective farms, as well as higher prices for agricultural products considerably narrowed the gap between collective farmers and state employees; however, the measures reflected the need to increase agricultural productivity as much as concerns about inequality and deprivation;

heavy compared to the light industry (McAuley 1979). Furthermore, as a rule, bonuses were completely lacking in service and other 'non-productive' sectors (Lane 1971). Even within the same branch substantial earnings differentials could arise. Enterprise managers often used the bonus and extra perk system to bypass existing wage rate scales and attract workers to their enterprise. The leeway they enjoyed in using this recruitment strategy different from enterprise to enterprise. In many cases, actual pay was linked to enterprise performance and, as such, inter-enterprise performance were accepted and legitimated. In some cases, directors and managers of strategic enterprises or research centres were paid personal wage rates which were well in excess of what the amounts that would have corresponded to them using the official pay scale (Lane 1971).

Socialist inequality was well entrenched along gender-lines. Despite their high labour force participation and despite their considerable advancement in education, women never ceased to be seen as more than secondary-earners. On average, women earned around two thirds of male wages[49] (Lane 1971; Heitlinger 1979; McAuley 1979; Gruzdeva and Chertikhina 1986; Łobodzińska 1995). The resulting gender pay gap stemmed from at least three sources. First, women tended to be employed in low-paying economic sectors, such as services, trade and agriculture (Connor 1977; Echols III 1981; Szelényi 1992)[50]. On the one hand, women were disproportionally employed manual, low productivity jobs. For example, 73% of the manual jobs, requiring no special training and only short on the job experience in the USSR were held by women (Gruzdeva and Chertikhina 1986). Higher educational qualifications did not automatically translate into better and higher paying jobs. In fact, women were often overqualified for the jobs they held (Heitlinger 1979). On the other hand, higher skill feminized occupations, such as education or health services, were often considered to be less productive than predominantly male ones, such as those in the heavy industry. Moreover, to have their reproductive health protected, women were forbidden to enter particular (usually hazardous but well-paying) occupations. Second, women were much less likely to be employed in high paying managerial positions, even in feminized sectors. For example, in the USSR, women represented approximately 60% of the agricultural workforce but only 4% of collective farm chairpersons and state farm managers (Heitlinger 1979). Third, even when holding a similar job and having similar educational qualifications, women were consistently paid less than men (Heitlinger 1979).

High income differentials have been found to exist not only between men and women but also between the majority and ethnic minorities and among various regions (Echols III 1981). In the USSR, despite some attempt at equalization, considerable income differences

[49] In fact, the size of the gender pay gap was very similar in East and in the West;

[50] Connor found very high (between 0.7-0.9) correlations between the average pay in an occupational sector and the percentage of its female labour force in Bulgaria, Hungary and USSR (1973-figures); He concludes that to the extent that white-collar non-manual routine occupations have been equalized (as income) to the skilled manual work , this has been done though the heavy feminization of the former sector; See Connor, W. D. (1977). Socialism, Work and Equality. Equity, Income, and Policy Comparative Studies in Three Worlds of Development. I. L. Horowitz. New York, Praeger Publishers**:** 146-175.

remained between the constituent republics. Average income in the most prosperous one was 1.8 times higher than in the poorest one (McAuley 1979).

Official policy and legislative measures did periodically reduce income inequality. Although, the declared primary purpose of official wage rate scales of an efficient labour allocation implied appropriate wage differentiation, periodically, measures were taken to eliminate 'unnecessary' income differentials, especially in the post-Stalinist era (McAuley 1979). Nonetheless, the chosen equalization strategy proved to be unsustainable in the long run. Income equalization relied mainly on increasing incomes at the bottom (for example, by increasing the minimum wage, establishing a pension system for collective farmers, increasing the pay for agricultural products etc.) faster than incomes at the top. In practice, this translated into accelerated consumption growth relative to the GNP. The low initial share of consumption in the Gross National Product allowed some leeway for substantial consumption increases. Yet, as the growth in consumption outpaced the GNP growth, such an equalization strategy threatened investment and future economic growth (McAuley 1979). As such, attempts at 'equalization' were periodically interrupted by periods of increased earnings differentials (McAuley 1979; Machonin 1996).

2.2.2 CONSUMPTION

It has often been claimed that income is not an adequate indicator of consumption in socialist economies, mainly due to the substitution of distribution through market prices with distribution based on rationing and direct administrative allocation. In particular, chronic consumer goods shortages meant that direct access to scarce goods was often more important than income (Hamilton and Hirszowicz 1987). As a result, income equalization often failed to translate into an equalization of consumption and living standards[51] (Machonin 1970).

Several studies have focused on inequality patterns deriving from differentiated access to housing, subsidized goods and education. Perhaps the most well-known is the research work done on the distribution of housing in Hungary by Ivan Szelenyi (Szelenyi 1978; Szelenyi 1983; Szelenyi and Manchin 1987). Examining the housing conditions of various social strata and the way these obtained their housing, Szelenyi reaches the conclusion that inequalities after housing are greater than inequalities before considering housing costs. Higher income-groups were much better positioned to receive quality new housing from the state at a very low price (as rents were heavily subsidized). In contrast, lower-income groups were forced to build their house on their own or to buy it on the market. As a result, not only did they have to live in worse housing conditions, but usually they paid more for their housing than did higher income groups. Similar

[51] Unlike Western Europe, cash transfers were only very mildly progressive; in fact, counting pensions as transfers, Milanovic asserts that transfers were largely the same in size across income groups Milanovic, B. (1993). Cash Social Transfers, Direct Taxes and Income Distribution in Late Socialism. Policy Research Working Papers. Washington D.C., The World Bank.

housing inequalities have been found to exist in the USSR and Poland (Rutkevitch, Wesołowski et al. 1974; Yanowitch 1977; McAuley 1979; Lane 1982; Ovsiannikov 1986). Professionals and skilled workers lived in larger housing units, equipped with more amenities, compared to unskilled workers and collective farmers.

An analogous point is made by Ladany about price subsidies (see Szelenyi 1978). Examining the effect of administrative price distortions he finds a slight regressive effect resulting from the fact that goods consumed by higher income groups were subsidized in a higher proportion than goods consumed by lower income groups. In some countries (for example, in the USSR or Romania), consumer goods were effectively rationed. Allocated rations could vary dramatically, depending on the job held. For instance, the highest category of employees in the USSR was entitled to 14 kilos of meet per month, while the lowest category was allowed only 2.2 kilos per month (Hamilton and Hirszowicz 1987). Enterprise based shops, as well as the existence of separate, better supplied retail networks for some privileged categories further magnified inequalities in consumption.

Professionals and managerial groups have been found to be (two to three times) more likely to own a variety of consumer durables, especially devices relieving or aiding domestic work, compared to skilled and unskilled workers and collective farmers (Yanowitch 1977; Heitlinger 1979; Gruzdeva and Chertikhina 1986). The latter were the least probable to own such items. Correspondingly, rural residents were much less likely to own consumer durables than the urban population.

To sum up, socialist societies continued to be strongly stratified in terms of income and even more so in terms of access to public goods such as housing and education. Whereas official wage scales were comparatively compressed by Western standards, additional bonuses, perks, personal wages and pensions considerably widened income differentials. The widespread practice of researchers based in socialist countries to use large and heterogeneous categories when making comparisons often obscures the real extent of income inequality. Additionally, the existence of administrative allocation mechanisms for housing, holiday homes, even retail goods (though the existence of separate retail networks) signified that consumption disparities were often larger than income inequalities.

2.2.3 SOCIAL MOBILITY

The existence of economic disparities becomes less of a concern and politically more acceptable if access to privileged positions is relatively open. A fluid stratification, with many upward as well as downward intra-generational and intergenerational trajectories would be indicative of a high level of openness. On the contrary, the stability of access to privileged social positions would signify social closure.

The rapid social change characteristic of the early communist period created the conditions for substantial occupational mobility to occur. Industrialization, urbanization and

rapid economic growth have altered the occupational structure by increasing the positions at the top and diminishing those at the bottom. Consequently, many top positions had to be filled by recruiting from the bottom (Sarapata 1966; Zagórski 1974; Yanowitch 1977; Pohoski 1986; Strmiska 1987; Machonin 1996). This situation allowed for impressive upward mobility. However, substantial movement towards the top was not accompanied by corresponding downward paths, suggesting that the relatively high levels of total mobility were the result primarily of structural and not relative mobility. Therefore, a slowing down of economic growth, industrialization and urbanization translated into an intensified competition for top positions and declining mobility. The exceptional upward mobility experienced by the peasantry and the working class during the late 1940's and 1950's remained a onetime occurrence.

Children of professionals and managers were much more likely to enter professional and higher level jobs compared to children of working class and peasant background. To illustrate, in the USSR, around 70% of intelligentsia parents could expect to pass down their position to their children, whereas only 30% of working class children acceded to intelligentsia status (Yanowitch 1977). Even when holding similar qualifications, children of non-manual employees- more likely to obtain better entry level jobs than children of working class parents (Yanowitch 1977).

Unskilled workers and peasantry were much less socially mobile compared to other categories, both intra- and inter- generationally (Aksentievics 1983). Especially after the first period of industrialization when the transformation of the occupational structure started to slow down, social mobility became much less prevalent among the lower classes (Ferge 1984; Kolosi 1988). In 1963, in Hungary, 69% of the children of professionals, but only 4% of the children of agricultural workers found themselves in a non-manual occupation (Lane 1971). Early poverty became a significant hindrance of the advancement in the social hierarchy (Ferge 1984).

Mobility patterns were not only occupationally dependent, but residential based. Children residing in an urban environment, were, irrespective of the parents' occupation, more likely to experience upward mobility compared to children living in the countryside (Yanowitch 1977; Yanowitch 1986).

Even when it did occur, upward mobility was most often short ranged (Yanowitch 1977; Shkaratan 1986). Children of non-manual employees were most likely to move upward to intelligentsia status. Upward trajectories for children of collective farmers usually translated into access to a skilled worker position.

Not only did the deceleration of economic growth reduce mobility opportunities, but some of the early achievements were beset by setbacks. As higher educational qualifications became widespread, some individuals who initially have experienced upward mobility were later demoted (Shkaratan 1986). Apparently, the lack of appropriate formal qualifications eventually proved an insurmountable barrier for some individuals. In addition, whereas in the early 50's the career of many individuals in leading positions started with a short experience as a skilled or (more rarely) unskilled worker, followed by further education, later on the personnel for top

positions tended to be recruited directly from among higher education graduates (Shkaratan 1986).

The educational system is probably the most important institutional mechanism shaping mobility opportunities. Access to top positions, especially after the initial shortage of skills was overcome, was generally restricted to individuals undergoing longer and higher quality education. Therefore, existing educational inequalities have the potential to shape future mobility patterns. Initially, the rapid expansion of mass education allowed many with a worker or peasant background to advance their qualifications and thus be socially mobile (Yanowitch 1986; Shavit and Blossfeld 1993). Furthermore, early on, the introduction of the quota system which granted preferential access to higher education to children of worker and peasant background contributed to ensuring upward educational mobility. However, once the growth of the system slowed down as it reached a saturation point, cadre administrators and professionals were able to use their social and cultural capital to ensure the reproduction of their positions through the acquiring of educational credentials. The realization that is was much more efficient to educate children of intelligentsia background led to the gradual abandonment of the quota system. Furthermore, even as the expansion of the educational system and the introduction of quotas in higher education acted to promote upward educational mobility, the children of professionals and administrative cadres were consistently better able to acquire educational credentials both at the higher secondary level and especially at the tertiary level (Gazsó 1984; Hanley and McKeever 1997). On the one hand, early family socialization played an important role in shaping school achievement. Children of professionals consistently outperformed children of working class background and especially of collective farm background (Yanowitch 1977). More educated parents were better able to support their children's school work, to provide for adequate housing and material resources, and to instil higher career aspirations into their children.

On the other hand, even when attaining a similar level of school achievement, children of collective farmers and unskilled workers were less likely to decide on continuing their education and less likely to enter higher education establishments. For instance, in the USSR , only 46% of working class children with a score of 3.5 or *better* continued to the 9-th grade, whereas 77% of the intelligentsia children with a score of 3.5 or *lower* did so (Yanowitch 1977). In fact, among children of university educated parents, previous academic performance had virtually no influence on the likelihood of continuing education (Yanowitch 1977).

The impact of parental and occupational background increases as the child moves up the educational ladder. The underrepresentation of the lower strata youth is even more striking in higher education. Children of intelligentsia background are three times more likely to enter higher education than children of blue-collar workers (Hamilton and Hirszowicz 1987). In the USSR, only 6.5% of students in tertiary education were of collective farm origin in 1979/80 (down from 9.9% in 1971) (Yanowitch 1977).

Even when children of lower class background do continue education, they often end up in lower quality establishments, undergoing shorter term programs. Lower quality, lower level

professional schools were overwhelmingly working class establishments (Yanowitch 1977). After finishing eighth grade, around 25-50% of worker and non-specialised employees children began work or entered a vocational school, whereas only 3% of the intelligentsia children did so. Within the most prestigious Soviet higher education institutions, only 1 to 4% of students were of collective farm background and only 25-30% of a working class background (corresponding representation in the population is 15.2% and 60% respectively) (Yanowitch 1977).

Despite some early successes, the Soviet educational system never escaped the strains imposed by the contradictions between democratization and the efficient production of scarce skills. Whenever the strains became too intolerable, the practical demands of economic production tended to outweigh any ideological commitments to equality of opportunity. As a result, access to educational resources remained unevenly distributed.

2.2.4 POLITICAL INEQUALITY

The working class occupied a central position in Marxist thinking. Its special leading role in history was to bring about the conditions necessary for the establishment of a fully developed communist society. However, the classic Leninist interpretation of Marxism stated that the working class carried out its leading role through the communist party. As such, the party was of paramount political importance. Party membership and especially access to party leading positions, together with holding of state offices, may be regarded as the primordial levers shaping political inequality.

Unlike economic inequality, political inequality in socialism has been examined early on. Trotskyite and other new class critics[52] have pinpointed new cleavages that were not the remnants of the previous bourgeois society but were generated by the new socialist order (Sawer 1978; Szelenyi 1978; Szelenyi 1978; Lane 1982). More specifically, the party was seen to be gradually transforming from a revolutionary vanguard force to a rigidified bureaucracy, which, by virtue of its monopoly over vital decision-making regarding production and redistribution of society's resources, enjoyed a privileged position. Most importantly, its interests ran against those of the working class. The new class relied on accumulated expertise, education and training to maintain its elite position and financed this capital accumulation by extracting surplus value from the primary producers (Sawer 1978). It used its stated monopoly over teleological knowledge, i.e. the best and fastest way of bringing about a communist society, to reject all forms of control from below (Bauman 1974; Szelenyi 1978).

While agreeing to the existence of an elite group's monopoly over production and redistribution, various authors disagree when it comes to delineating the actual members of the group. Ivan Szelenyi (1978) diverges from mainstream views in suggesting that not only the core bureaucracy and officialdom but the entire intelligentsia constitute an elite ruling group. His

[52] For a discussion of 'new class' theories see Sawer, M., Ed. (1978). Socialism and the New Class: Towards the Analysis of Structural Inequality within Socialist Societies. Sydney, Australasian Political Studies Association.

argument rests on the constant interchanges and circulation taking place between bureaucrats and intellectuals, on the similarity of material conditions and lifestyles of the techno-bureaucracy and the intelligentsia, and on the structural economic conflict between intellectuals and the working class.

On a more empirical level, high official and managerial positions tended to be occupied by educated professionals, not by working class members (Szelenyi 1978). Except for a short period, when lack of skills allowed for the rapid advancement of some individuals with a working class and collective farm background, such high level positions were deemed to require a higher education, as well as an appropriate political attitude. As a result, managers and professionals were much more likely to be members and to hold higher level party positions compared to workers and especially collective farmers. In Hungary, professionals and technocrats were twice as likely as workers and 14 times more likely than those outside socialized production to be members of the Hungarian Socialist Workers' Party (Szelényi 1987). Moreover, professionals were better able to use their political engagement to obtain higher earnings and, more generally, higher living standards (Beskid and Kolosi 1983).

Power disparities manifested themselves within the enterprise as well. The early years of planning have consecrated an authoritarian style of management centred around controlling and supervising (Yanowitch 1977). Whilst later on a more humanizing and participatory style was promoted, the actual exclusion of workers from decision making was kept intact. The extremely hierarchical nature of the system meant that responsibility was always construed upwards and not downwards. Decentralization and decision-making at the bottom was often rejected and opposed, as it threatened the power of managers and bureaucrats. Among existing categories of workers, not all were equally powerless. The core (mostly skilled) workers were better able to advance their interests both at the enterprise level and at the national level through company-management (Yanowitch 1977; Kolosi 1988).

Not only were workers not involved in decisions regarding enterprise production, but the official view forbade any adversarial relationships with management. As a result, trade unions[53] which in capitalism act as a counterweight to management, in socialism acted as mechanisms enabling the party and the enterprise management to better control its workers. The close links between management and the local political elite not only prevented the party acting as a counterweight to management in upholding the workers' interest, but they enabled management to use political power against recalcitrant workers (Benson 1974).

The only example of a socialist country attempting to implement direct workers' decision-making at the enterprise level, Yugoslavia, did not make for a success story (Benson 1974). Despite the existence of formal workers decision-making bodies and the veto power they held in several important areas, in practice, management was the most important decision-making actor, successfully bypassing or controlling workers' councils. The latter's authority

[53] Such organizations acted as a conveying belt, carrying the party's orders and demands to ordinary citizens;

usually was confined to issues of minor importance. The practical demands imposed by co-ordinating, supervising and leading, the critical role of management as a supplier of information, as well as the different discipline rules applying to management and workers, prevented any substantive form of self-management from materializing. In effect, workers had no effective channel to sanction management. Attesting to the pure formal role of self-management mechanisms, workers themselves deemed striking as a more effective tool of having their wishes heard than workers' councils (Benson 1974).

The occupational dimension has undoubtedly been the most widely reviewed aspect of political inequality. Yet, other dimensions, such as ethnicity, gender etc., were just as salient. For instance, Russian ethnics tended to dominate the highest level of Party leadership in the USSR (McAuley 1979). In 1970 Czechoslovakia, out of 115 members of the Central Committee only 8 were women (Heitlinger 1979).

To sum up, a person's political power was largely determined by the persokn's position in the organization it belonged to, as well as the organization's position in the larger institutional hierarchy (Hamilton and Hirszowicz 1987). In fact, no independent channel to exercise authority, such as democratic elections, existed. All organizations were very hierarchical and decisions were taken in a top-down manner. Despite the official discourse, in effect, ordinary blue-collar workers possessed very little leeway to influence decision-making both at the enterprise and at the societal level. Overall, the political influence of the working class had changed little under socialism (Wesolowski and Mach 1986).

2.2.5 POVERTY

Despite the official discourse that claimed that poverty has been completely eradicated in the socialist society, deprivation continued to exist. It is difficult to obtain reliable quantitative estimations of the prevalence of material need in the various countries of the communist bloc. Nonetheless, some attempts have been made to arrive at such estimations, especially in Hungary.

For example, based on a seven-dimensional index[54], Tamás Kolosi approximated the share of the deprived, in Hungary, to be around 9% (Kolosi 1984). His results indicated that consumption, housing facilities, consumer durables, cars and holiday homes discriminated better between the deprived and the non-deprived than per capita household income. In a similar research endeavour, Ágnes Bokor investigated the prevalence and characteristics of deprivation in six dimensions, i.e. work, interest upholding, residence-housing, material assets, lifestyle, and health status (Bokor 1984). She finds that only 4% are deprived in four or more dimensions, but 29% are deprived in at least 2 dimensions. Her results pointed out that material living conditions and settlement-housing conditions had the greatest impact in determining a person's probability

[54] The index includes settlement, housing, financial and cultural characteristics, consumption, position in the division of labour and the ability to uphold ones interest; see Kolosi, T. (1984). Status and stratification. Stratification and Inequality. R. Andorka and T. Kolosi. Budapest, Institute of Social Sciences: 51-103.

of being deprived[55]. Building on the 1969 definition on the minimal monthly subsistence wage put forward by the Hungarian Central Bureau of Statistics, Kemény puts at 32% the share of families living below this subsistence level on 1968 (Kemény 1979).

Building on an array of various but disparate sources, Alastair McAuley estimated the Soviet share of individuals living in households with a per capita income below the official "working" poverty line (about 25-30 roubles/ month) to range between 2-2.5% for state non-agricultural employees to 36.56% for collective farmers in the late 50's (McAuley 1979). In 1965, around 35-40% of the population was estimated to have an income below the official poverty level (around 50 roubles per capita per month).

Despite direct public provision of some goods and services, low and very low incomes went together with very low living standards. For example, during the early 1970s, three quarters of the very poor in Hungary loved in houses that had at most a room and a kitchen (Kemény 1979). They spent more of their income on basic necessities such as food or heating but still occasionally suffered from malnourishment, lacked basic amenities such as running water and in some cases electricity (Kemény 1979). In fact, public provision of goods and services was often regressive as desirable goods were not only linked to employment but reserved to "valuable" workers.

Who was likely to be in a disadvantaged position? Because of the emphasis on the productive role of the individual, some authors maintain that vulnerability remained strongest among those not integrated in the work-eligibility system, such as the disabled, the elderly, children or the Roma (Castle-Kanerova 1992; Millard 1992; Deacon 2000). For those integrated into mainstream employment, demographic characteristics such as the earner/dependents ratio bear the strongest risk of low per capita income (McAuley 1979; Večernik 1991).

The shallowness of the protection offered to those not able to enter gainful employment is nowhere more evident that in the case of the disabled. Both in the Soviet Union and in the Central-East European satellites, disability benefits were markedly less generous than old-age pensions, guaranteeing only a very meagre income level (Minkoff and Turgeon 1977). Indeed, the replacement rate for a disability pensioner with 3 dependents was generally lower (sometimes much lower) than the replacement rate awarded to a single old-age pensioner. Survivorship pensions conferred even lower benefits than disability pensions. It should not be concluded however that pensioners enjoyed a relatively high standard of living. Indeed, in Hungary, persons over 60 had a relative risk of being deprived[56] 2.44 times higher compared to the average in the population (Bokor 1984).

Another group at high risk of experiencing inadequate income were families with children and especially families with many children. In Hungary, despite a very generous family

[55] Defined as deprivation in at least 3 of the 6 areas; 12.2% of the population fell within this category; Bokor, Á. Ibid.Deprivation: Dimensions and Indices**:** 105-135.

[56] Deprivation is defined as being below mean-1 standard deviation in 3 dimensions out of six: work, interest upholding, residence-housing, material assets, lifestyle, and health; Ibid.

benefits system, large families containing three or more children were 1.27 times more likely to experience deprivation[57] than the average population (See Table 2.1 below). A third of the families with three children and two thirds of the families with four or more children were very poor (in the bottom decile) in 1973 (Kemény 1979). In the Soviet Union, minimum wages were high enough to maintain a person above the official poverty level in the 50's and the 60's but families with children were about four times as likely as childless couples to have inadequate (per capita) income. Single-parent ("incomplete") families and families which contained other dependent relatives ("complex families") were also more likely than single-persons and childless couples to find themselves below the official poverty line (McAuley 1979).

Table 2.1Relative risk* of deprivation in Hungary in early 1980's

Social category	Share of all deprived	Relative Risk	Social category (within non-active earners)	Share of non-active deprived	Relative Risk
Women	63.9	1.21	Old-age pensioners	53.7	1.003
Over 60**	56.2	2.44	Widow pensioners	12.7	1.67
3 + children	5.2	1.27	Other non-active earners	33.8	2.25
Rural resident	73	1.52			
Retired*** semi-skilled worker	22.9	2.54			
Retired*** unskilled worker	11.4	2.60			
Non-active earner	77.1	1.92			

Note: deprivation is defined as being below mean-1 standard deviation in at least 3 dimensions out of six: work, interest upholding, residence-housing, material assets, lifestyle, and health; the six dimensions are composite scales based on 95 original items; the work and the interest indexes were computed only for active earners;
*The relative risk is defined as the ratio between the percentage of the respective social category among the deprived and the percentage among the total population;
**Active and non-active earners are pooled together; further analysis showed that actually the relative risk of deprivation was higher for active earners over 60- 1.62 than for non-active earners over 60 -1.04;
*** In total seven categories of retirees were analysed; the remaining five categories had relative risks of being deprived lower than 1;
Source: (Bokor 1984).

[57] As defined by Bokor; see above;

Among those gainfully employed, the worst material situation was encountered among collective farmers. This category has to contend with the lowest incomes, scant access to qualitatively inadequate services, less prevalent ownership of consumer durables, lower quality housing and, at least during some periods, with overt institutional discrimination (see the sections on inequality above). It is no surprise then that collective farmers often experienced poverty. In 1965, in the USSR, 75% of collective farmers had a personal income (cash payments from the collective farm together with the income derived from in-kind production on personal plots) smaller than the (low) official poverty line and 50% had an income lower than half of the poverty line (McAuley 1979). In Hungary, fourth fifths of households in the bottom income decile were unskilled, semi-skilled or farm labourers living in rural areas (Kemény 1979). Aside from low income, this group also suffered from volatile employment histories, often supplanting or supplementing regular official wages with income from day-labouring and agricultural seasonal work. Such insecure employment, albeit sometimes yielding a higher pay, often meant unrecognized work histories and lower or no access to services and benefits that were tightly linked to employment (Kemény 1979).

The economic position of the Roma during socialism is another telling example of deprivation. In a comprehensive analysis of a Gypsy settlement in Hungary, Szelény and Ladány conclude that although socialist policies helped to integrate the Gypsy, at least economically, they also laid the foundation of extreme segregation and poverty during post-socialism (Ladány and Szelenyi 2006). Although Gypsy children did complete eight years of primary schooling they rarely underwent the apprenticeship training needed to gain access to a skilled job. As a result, the bulk of the Roma population earned its living through (easily accessible) unskilled employment. Moreover, paternalistic economic and social policies destroyed the pre-socialist economic skills of the Roma (as artisans, middlemen, musicians etc.) and made them entirely dependent on the state. The decay of the rural settlements partly exacerbated by the socialist industrialization and urbanization policies left the Roma in a deplorable state of almost complete spatial segregation[58]. Even during socialism, the Roma were likely to experience very low incomes. For example, Kemeny estimates that 62% of the Roma families in Hungary were in the bottom 10% of the income distribution during 1968-1971 (Kemény 1979). To sum up, although socialist policies did go some distance in the economic integration of the Roma, they never succeeded in lifting them above the bottom of the social hierarchy while at the same time increasing their vulnerabilities in the post-socialist competitive system.

To conclude, the impression that socialism had transformed Central and East European societies into unstructured and homogeneous masses is highly misleading. Bureaucratic allocation

[58] The authors draw an interesting parallel to the ghettoization of the black urban underclass through the outmigration of the white and the better-off black families taking place in American cities Ladány, J. and I. Szelenyi (2006). Patterns of Exclusion: Constructing Gypsy Ethnicity and the Making of an Underclass in Transitional Societies of Europe. New York, Columbia University Press.;

of goods did generate an unequal distribution of valuable goods in Eastern socialist countries just as market allocation mechanisms have in capitalist societies (Szelenyi 1978; Szelenyi and Manchin 1987). Although some authors maintain that the extent of inequality was smaller under socialism (Szelenyi 1978; Ferge 1984; Szelenyi and Manchin 1987), this assertion is quite controversial, mainly due to the fact that Western countries themselves have highly divergent levels of inequality (see Bergson 1984). Even if the wage scale was considerably more compressed compared to the West, living standards were much more unequal than the income distribution would indicate (Szelenyi 1978; Szelenyi and Manchin 1987; Kolosi 1988). Indeed, direct allocation mechanisms most often worked to heighten not lessen income inequalities, thereby playing the role of wage supplements. Notwithstanding the official discourse that blamed individual failures and pathologies for the inability to integrate in the work-centred protection mechanisms and thus avoid material hardship(Sipos 1994; Atal 1999; Ringold and Andrews 1999), some social categories were much more likely to be pushed to the fringes of society. The system persistently disadvantaged women, larger families and unskilled workers and agricultural workers (especially after they retired). These categories continued to remain vulnerable in the newly emerging market economies.

2.3 POVERTY IN TRANSITION

There has been little contention about the negative consequences that the transformation of a planned economy into a market one will have in the social sphere, poverty among them. Some authors reasoned that the double transition would bring about both more efficiency and more equity, i.e. going from planned to market economy would entail more efficiency while going from dictatorship to democracy would convey more equity (Rupp 1992). Despite such arguments, opinion surveys pointed out that Central and East European citizens were much more concerned with their material situation than with more opportunities for political participation or more freedom of speech (Andorka 1999).

The underlying causes for the spread of poverty are linked both to the economic recession and to the solutions to address it put forward by the neoliberal strategy, i.e. a highly restrictive fiscal and monetary policy that constrained both employment and wages growth on the one hand and demanded a restriction of public outlays in the forms of various social benefits and services on the other hand. Thus, the real value of wages, pensions and other social benefits quickly eroded, savings were largely wiped out by bouts of inflation and negative interest rates, unemployment ensued and the decline in agricultural subsidies seriously hurt peasants (Adam 1999). Obviously, structural reforms such as privatization or enterprise restructuring contributed their share by generating a sizeable number of unemployed, especially during the mid 90's (Yet, it should be remembered that, at least initially, the vast majority of the poor were working (Alam, Murthi et al. 2005)). Among these phenomena, two deserve further attention as being closely

linked to poverty. The first one is a general fall in the standard of living. The second one is an increase in inequality.

2.3.1 STANDARD OF LIVING AND INEQUALITY

Compared to West European countries, the standard of living throughout Central and Eastern Europe was low. The economic downturn in the first half of the 90's brought a further deterioration. Household real income decreased substantially both through employment contraction and through inflation reducing the purchasing power of earnings and of social benefits[59].

Table 2.2 presents an overview of the drop in income and consumption based on data compiled from various sources[60]. Generally speaking, figures show a smaller decline in consumption compared to income. To a considerable extent, this finding is to be expected. On the one hand, an inaccurate measurement of income overestimates the decline by not capturing resources generated in the informal economy, and on the other hand, households resort to coping strategies such as accumulated savings, sale of assets or loans in order to maintain their consumption level in a period of declining income. Hence, a focus on real income trends appears to exaggerate the losses in household welfare. Yet, it should be remembered that the structure of household consumption has also been altered[61]. Households are now forced to commit much larger shares of their budgets to items such as housing, education or health-care which previously were available on a quasi-free basis. Hence, the same real income cannot buy the same quantity of goods and services (Adam 1999).

Table 2.2 Drop in real income and real consumption in the transition period (in %)

	Milanovic (Per capita real income estimated at HH level)	Adam (Average Real Income and Average Consumption)	
		Income	Consumption
Bulgaria	-45 (1989-1993)	-	-
Czech Republic	-12 (1988-1993)	-22.1 (1989-1993)-	-12.8 (1989-1993)

[59] One might argue that as long as shortages were widespread and the consumers had a narrow range of choices when acquiring goods and services, real income is not a good measure of the standard of living; the situation is worsened by the fact that some goods such as housing or services like health-care were so heavily subsidized that they were virtually free; while acknowledging that real income/ real wages have significant shortcomings in gauging the standard of living, they are only given as a rough measure that need to be complemented by other indicators;

[60] For further information on the fall in GDP/capita, employment and real wages see also Garner, T. I. and K. Terrell (1998). "A Gini Decomposition Analysis of Inequality in the Czech and Slovak Republics during the transition." Economics of Transition **6**(1): 23-46.

[61] Actual consumption during communism might have been higher than expenditure figures indicate as some services were quasi-free and thus not included in expenditure data;

	Milanovic (Per capita real income estimated at HH level)	Adam (Average Real Income and Average Consumption)	
		-8.6 (1989-1996)	+0.2(1989-1996)
Hungary	-23 (1989-1993)	-11.3 (1989-1993)	-7.5 (1989-1993)
		-13.9 (1989-1996)	-16.3(1989-1996)
Poland	-27 (1987-1993)	-14.5 (1989-1993)	-3.1 (1989-1993)
		-2.4 (1989-1996)	+13.8(1989-1996)
Romania	-31(1989-1994)	-	-
Slovak Republic	-34 (1988-1993)	-	-
Slovenia	-7 (1987-1993)	-	-

Source: (Milanovic 1996; Adam 1999)

A fall in real income is not the only sign indicating a worsening of household welfare in Central and Eastern Europe during the 90's. As Cornia et al. point out (Cornia, Fajth et al. 1996), the region has also experienced a surge in mortality and morbidity rates, a drop in life-expectancy, particularly for young and middle-aged males, a substantial drop in enrolment rates at kindergarten and secondary school levels, as well as a sizeable expansion of crime rates. All of these phenomena indicate that early transition has been associated with a general worsening of the quality of life.

As noted in the previous section, inequality was not uncommon under socialism. Yet, at least in income terms, its magnitude was under tight direct administrative, and implicitly political, control. As market forces and private ownership were gradually introduced, inequalities began to widen (see Table 2.3). Although research done on the topic confirms that indeed there has been an increase, detailed figures are not always consistent[62].

Table 2.3 Gini coefficients of income distribution in Central and Eastern Europe from 1987-2004

	Equivalence scale	1987-1989	1990-1992	1993-1995	1996-1998	1999-2001	2002-2004
BULGARIA							
Milanovic	Per capita	21.7	30	34.2			
GVG	Per capita			27.1	31.4	29.5	
CZECH REPUBLIC							
Vecernik	HH level	29	32	-	33		
	Per capita	20	23		26		
Garner	HH level	16.2		17.4			
WDI	Per capita	19		27			

[62] For an in-depth analysis of this problem see Heyns, B. (2005). "Emerging Inequalities in Central and Eastern Europe." Annual Review of Sociology **31**: 163-197.

	Equivalence scale	1987-1989	1990-1992	1993-1995	1996-1998	1999-2001	2002-2004
ESTONIA							
GVG	Per capita				38	38	
HUNGARY							
Kattuman	Original	20.7	19.5	23.4	24.2		
Milanovic	Per capita	20.7		22.9			
GVG	OECD scale			30	30	30	30
WDI	Per capita	21		23			
LATVIA							
Milanovic	Per capita	22.6	23.5	32.6			
POLAND							
WDI	Per capita	25		30			
ROMANIA							
GVG	Per capita	21.0	23.0	31.0	30		
SLOVAK REPUBLIC							
Garner &	HH disposable	15.7		16.8			
SLOVENIA							
Milanovic	Per capita	22.9	25.7	27.2			

Note: Where data are available for more than one year of each 3-year period, the highest figure is presented;
Sources: (Garner and Terrell 1998; Milanovic 1998; Kattuman and Redmond 2001; (GVG) 2003; (GVG) 2003), World Development Indicators (WDI) produced by the Word Bank see http://devdata.worldbank.org/wdi2005/Section2.htm;

Several factors were behind the rising inequality trend (Milanovic 1998). First of all, wages tend to be more unequal in the private sector. As the public sector shrinks being progressively replaced by the private one, earnings dispersion also increases. Second, while in a planned economy income generation channels were constituted almost exclusively of wages (except for social transfers), a greater diversification of income is to be found in market economies. However, these new income sources, such as self-employment and capital income are much more unequally distributed than wages. Hence, their increase in the total share of aggregate household income usually comes along with wider income inequality. Finally, as unemployment spread, larger numbers of people were forced to rely on unemployment benefits or social assistance which provided them only with a meagre cash amount, thereby augmenting income differentiation between them and individuals in employment or on pensions.

While a general trend of increasing inequality manifested itself throughout Central and Eastern Europe, its precise characteristics varied across countries. For example, in an analysis of inequality trends in Hungary in the first half of the 90's, Kattuman and Redmond maintain that inequality slightly declined between 1987 and 1991, only to increase sharply between 1991-1993

and more moderately between 1993 and 1996 (Kattuman and Redmond 2001)[63]. The factors behind the inequality increase are a diversification of income resources, less progressive taxation and a polarization of cash transfers between pension and non-pension benefits. Analyzing the distribution of household income in the Czech Republic, Jiři Večernik finds a stronger increase in the Gini coefficient of per capita income as compared to the Gini of total household income (Večernik 1999). To explain this finding he points to a weakening impact that demographic factors such as the number of wage-earners, the age, and the number of children have on a household's income position and to a simultaneous strengthening of the effect of personal earnings. Garner and Terrel also find that inequality increased in the Czech and in the Slovak Republics between 1989 and 1993, mainly due to a larger dispersion of earnings and a greater role played by self-employment (Garner and Terrell 1998). Examining the evolution of inequality in five CEE countries and Russia, Milanovic concludes that increased inequality could be explained mainly through a more unequal distribution of wages and possibly a higher concentration of pensions (Milanovic 1998).

From a poverty point of view, it is worth noting that much of the changes taking place in the income distribution have been concentrated in the lower and upper tails, i.e. the income shares of the lowest/ upper quintiles have witnessed a substantial decline/ increase (Rutkowski 1998; Kattuman and Redmond 2001).

2.3.2 POVERTY TRENDS

The drop in household welfare but especially its unequal distribution[64] meant impoverishment, especially to certain segments of the population (see section on poverty profile). While all evidence indicates that poverty has undeniably increased in the first half of the 1990's (see Fig. 1 and Table 2.4), the exact magnitude of the increase depends on the chosen poverty line, as well as on the data source on which calculations are based. Table 3 below presents a comparison of poverty trends in ten Central and East European countries using various poverty lines and equivalence scales.

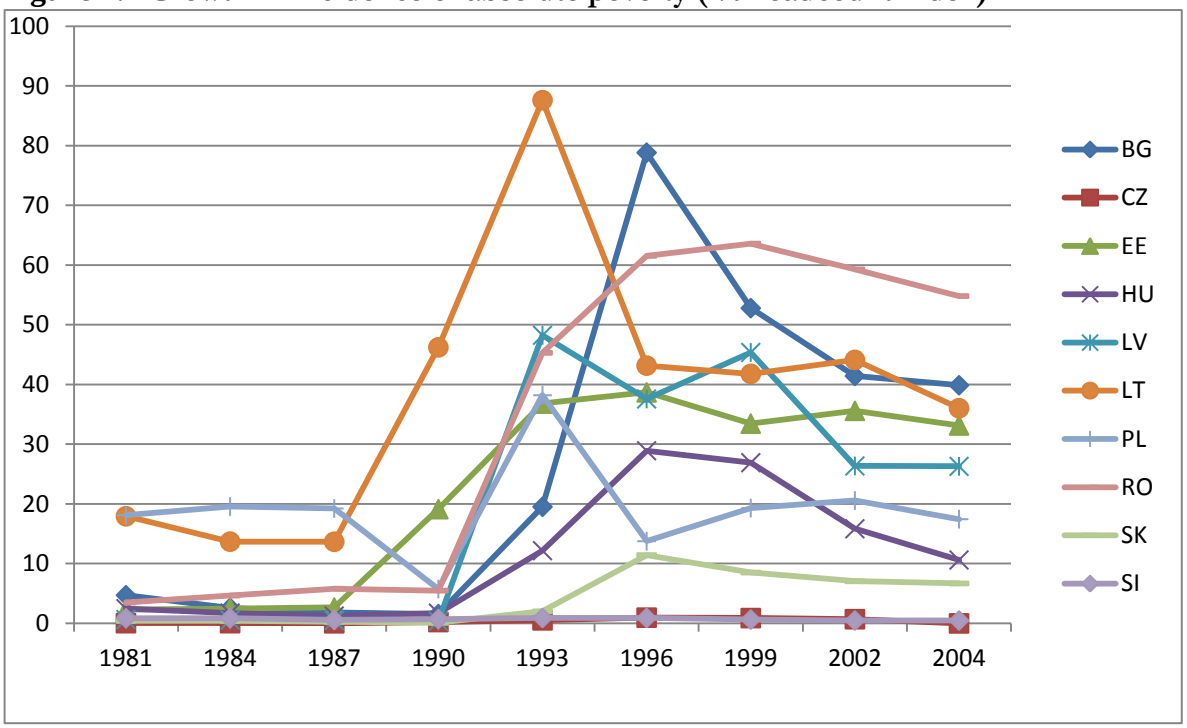
Notably, some of the poverty thresholds are set a very low level, i.e. between a quarter and a fifth of the national average wage, so the figures can be taken to indicate extreme poverty. The absolute poverty line set at 120$ per capita per month is also fairly low by OECD standards. Interestingly enough, due to the general fall in household real income, poverty expansion may be higher when an absolute measure is used rather than a relative one. This is true not only for the

[63] The authors experiment with various definitions of income and various inequality measures; their findings are generally consistent;

[64] For example, between 1993 and 1998, purchasing power in the Czech Republic dropped by 32.4% in the first decile and by only 6.7% in the highest one; See Adam, J. (1999). Social Costs of Transformation to a Market Economy in Post-Socialist Countries. The Cases of Poland, the Czech Republic and Hungary. London, Macmillan Press Ltd.

poorer Baltic and South-East European states but also for their relatively wealthier neighbours in Central Europe[65].

Figure 2.1 Growth in incidence of absolute poverty (% headcount index)



Note: poverty line= 4.40 PPP$/per capita/per day;
Source: See Annex 1;

Table 2.4 Poverty levels in Central and Eastern Europe through the 90's

		BG	CZ	EE	HU	LV	LT	PL	RO	SI
PL=0.21AW	1989	-	0.2	1	1.1	1.3	1.5	5.8	7.0	
EQ SCALE=	1990	2.0	0.2	-	-	-	-	9.7	3.5	
0.8 additional	1991	12.7	0.2	-	2.3	-	-	8.4	8.6	
adult; 0.5	1992	21.8	1.4	21.4	-	-	-	10.9	16.4	
child; 0.7	1993	25.3	-	30.0	4.0	-	-	-	25.3	
elder	1994	32.7	-	27.0	-	33.5	39.1	-	-	
PL= 120$ per	1987-1988	2	0	-	<1	-	-	6	6	
capita per month at 1990 international prices	1993	33	<1	-	3	-	-	26	24	
PL=24-	1989	-	-	-	1.1	-	-	-	7.0	

[65] For figures concerning Hungary see also Spéder, Z. (1998). "Poverty Dynamics in Hungary during the Transformation." Economics of Transition **6**(1): 1-21.

		BG	CZ	EE	HU	LV	LT	PL	RO	SI
27%AW	1990	2.0	-	-	-	-	-	-	3.5	
	1991	12.7	-	-	2.3	-	-	-	8.6	
	1992	21.8							16.4	
	1993	25.3			4.5				25.3	
PL=50%	1996				18.3*	15.1	18.0	14.0		
average	1997				17.8*	16.4	16.6			
equivalized	1998	15**			12.8*	18.2	16.0			13.9**
consumption	1999	14**			13.8*	18.6	15.8	16.5		
EQ Scale=	2000	14**			14.6*	20.3	16.0	17.1		
Original	2001	15**			14.4*		16.4			
OECD scale/										

Notes: **60% median income; *Per capita
Sources: (Cornia, Fajth et al. 1996; Milanovic 1996; Atal 1999; (GVG) 2003; (GVG) 2003; (GVG) 2003).

Despite being based on a variety of data sources and computed according to diverging methodologies, figures in Table 2.4 present rather similar stories[66]. First of all, it must be noted that the incidence of poverty in Central and Eastern Europe varies substantially across countries, irrespective of using absolute or relative measures. Two patterns become apparent. On the one hand, countries such as the Czech Republic, Hungary, Slovakia and Slovenia started with low poverty levels and were largely successful in containing massive surges. On the other hand, the expansion of poverty has been much more extreme in Bulgaria, the Baltic states, Poland and Romania, although initial poverty levels are much more heterogeneous in this group.

It seems that countries that have a higher standard of living are also characterized by lower levels of inequality. This finding seems to confirm the traditional theories linking inequality stabilization/ diminution and economic growth (For an extended discussion of these theories see (Heyns 2005)). Yet, there might be another explanation. Results of inequality decomposition studies indicate that social transfers did play a rather important role in mitigating market-inequality income in the Czech Republic and Slovakia and to a lesser degree in Hungary and Poland (Garner and Terrell 1998; Rutkowski 1998; Tóth 1999; Kattuman and Redmond 2001). Thus, wealthier countries may have made use of the larger resources they had at their disposal to mitigate possible income polarization.

Secondly, after the spikes witnessed in the mid 1990's, absolute poverty rates have retrenched (see Fig. 1), lending some support to the argument that as economic growth resumes, households are able to take advantage of the new economic opportunities and pull themselves out of poverty. Yet, despite their declining trend are still at worrisomely high levels, indicating that the trickle-down effect does not work for everybody. The effect sustained gains in real

[66] See also Appendix 1;

average earnings might have had on poverty have been seriously undermined by persisting unemployment and widening inequality of pay.

2.3.3 WHO IS POOR?

Although the extent and depth of poverty varied region-wide, the profiles of the poor were remarkably similar (Atal 1999; Braithwaite, Grootaert et al. 2000; Fox 2003; Alam, Murthi et al. 2005; Lelkes 2006) (see also Table 2.5). Unsurprisingly, unemployment notably increased the risk of becoming poor. Unemployed and irregularly employed workers tended to have higher poverty incidence rates and above average poverty gaps (Milanovic 1996; Braithwaite, Grootaert et al. 2000). Unemployment became all the more a painful experience as in a large number of cases it proved to be rather intractable. With the exception of the Czech Republic, outflows from the unemployment pool were low. Thus, an appreciable share (between 40% and 60%) of the unemployed remained so for a longer time period (Kramer 1997; Fox 2003; Alam, Murthi et al. 2005). Long unemployment spells quickly eroded any savings that might have been available and further reduced the chances of re-employment. Thus, very soon, unemployment came to have a large marginalizing potential.

Table 2.5 Groups at a higher risk of poverty in comparative perspective (1996-1999*)

Risk	BG	CZ	EE	HU	LV	LT	PL	RO	SK	SI
Unemployment										
Risk of poverty	-	-	-	-	-	-	-	-	-	-
Rel. poverty risk	2.24	16.29	4.51	4.33	2.65	1.38	4.56	2.51	3.47	3.55
Share of poor %	19.3	26.2	15.4	30.4	16.1	4.0	7.4	11.9	-	9.6
Low Pay (In-work poverty)										
Risk of poverty	9.1	5.0	17.4	7.6	16.8	9.0	10.5	28	9	4.1
Relative poverty risk when in (self) employment	0.8	1.78	1.79	1.24	1.51	0.9	0.97	3.68	0.82	0.63
Share of poor-(self) employed-%	25.1	43.7	45.2	43.9	43.8	73.9	75.6	55.5	-	42.5
Educational Disadvantage (Having only primary education or less)										
Risk of poverty	15.2	3.3	NA	9.4	15.3	14	33.2	37.1	NA	50.8
Rel. poverty risk	1.33	1.17	NA	1.54	1.37	1.4	3.07	4.88	1.41	7.81
Share of poor-%	58.3	24.4	NA	52.7	33.9	17.3	33.2	43.5	-	51.2
Family and children										
Poverty risk- lone parents	11.5	21.1	NA	10.5	13.2	21	21.3	15.3	NA	7.4
Rel. poverty risk –	1.01	7.53	NA	1.72	1.18	2.10	1.97	2.01	2.75	1.13

Risk	BG	CZ	EE	HU	LV	LT	PL	RO	SK	SI
lone parents										
Poverty risk-other hh with children	12.1	2.1	NA	9.2	13.7	11.9	14	10.1	NA	6.2
Rel. poverty risk-other hh. with children	1.06	0.75	NA	1.5	1.23	1.2	1.29	1.32	1.75	0.95
Share of poor (families with children)-%	44	95.5	NA	68.1	59	68.4	84.4	72.1	66.6	48.4
Elderly (65+)										
Risk of poverty	14.7	0.3	11.3	3.5	9.1	9.9	6.2	5.9	9.4	10.8
Rel. poverty risk	1.29	0.11	1.16	0.57	0.82	0.99	0.57	0.78	-	0.66
Share of poor	22.9	1.4	36.3	8.1	13.7	13.8	6.3	9.9	4.4	21.5
Living in a rural area										
Risk of poverty	14.6	2.5	NA	9.1	16.2	17.2	17.3	11.1	NA	NA
Rel. poverty risk	1.28	0.89	NA	1.49	1.46	1.72	1.6	1.47	NA	NA
Share of poor-%	42.6	30.4	NA	57	41.9	55.3	62	66.8	NA	NA

NA-not available;
* The figures are for different years in the interval depending on the country;
Note: The relative risk for a given category is defined as the ratio between the probability of experiencing the risk for the respective category and for the entire population; for example to compute the relative risk of being unemployed in the case of young people, the youth unemployment rate divided by the total unemployment rate; the poverty risk represents simply the poverty rate for the respective group;
Source: (Evans 2003); poverty line=50% of median per capita consumption; equivalence scale- 1 adult; 0.75-child;

Yet, the vast majority of the poor in the region continued to be linked to the formal labour market (Alam, Murthi et al. 2005). In their case, poverty sprang simply from the very low earnings levels. Historically, wages have been low as the state largely compensated through the provision of free services and massive price subsidies. Yet, the early price liberalization generated enormous inflation which quickly outpaced wage indexation. As labour productivity was low, enterprises tackled the problem with a mixture of labour shedding and low salaries. Furthermore, in an attempt to fight unemployment, policy makers kept wages low in the expectation that this measure will increase labour demand. Later on, as growth resumed and economic performance greatly improved, wages increased substantially in real terms but they also decompressed. As post-communist economies became more and more integrated into international circuits and as the private sector expanded and the public one shrunk, returns to education increased substantially (Braithwaite, Grootaert et al. 2000; Alam, Murthi et al. 2005). Well-paid industrial, low-skilled employment requiring only secondary school education is retrenching while a number

of domains heavily relying on human capital experience labour shortages, a fact that pushes up the wages of some of the high-skilled workers. Direct comparison of education and poverty levels also confirms that low-educated, low-skilled workers are at much higher risk of material deprivation than national averages, while the university-educated have a correspondingly lower risk (Milanovic 1996).

When looking at pensions, the most important type of social transfer, the situation is more mixed. A heated controversy governed the question of pensioner protection, especially in comparison with large families, with many children. Some authors (Milanovic 1996; Atal 1999; Fox 2003; Lelkes 2006) have contended that pensioners have not been particularly vulnerable to poverty during the economic recession years. Three arguments were brought in favour of this view (Fox 2003). Firstly, pensions seemed to have enjoyed better protection against inflation compared to wages. Secondly, as retirement ages were low, pensioners could afford to continue working after retirement, most likely in the underground economy (Lelkes 2006). Thirdly, middle-aged adults and pensioners were the main beneficiaries of housing and land repatriation policies. More generally, due to their size as a group and their voting behaviour, pensioners were considered to have been a rather vocal category that was largely successful in having its interests protected during the transition. Poverty statistics seemed to support this viewpoint, as pensioners tended to have both below average poverty gaps and below average poverty headcounts. Yet, Lanjow et al. (1998) have shown that the finding is highly sensitive to the preferred equivalence scale. In particular, if poverty measures are computed using per capita income or expenditure, then, indeed, pensioners do not seem to have been particularly vulnerable to poverty. Nonetheless, such findings may be biased by the fact that they assume no economies of scale. Resorting to equivalence scales that allow for larger, yet not implausible, economies of scale points to a much more precarious position of the pensioners.

Instead of using the presence of pensioners or children to predict poverty, Lanjow and his colleagues suggest to resort to dependency ratios[67]. As expected, higher dependency ratios are associated with an increased risk of poverty as the same amount of resources is split among a larger number of persons. In particular, poverty is widespread among families with three or more children. This situation is all the more worrisome as it points to the fact that poverty among children tends to be higher than the national averages (Milanovic 1996; Adam 1999; Tóth 1999; Förster and Tóth 2001).

Rural residence constituted another characteristic associated with poverty. The agricultural sector suffered a downturn as state subsidies were removed and trade was liberalized, forcing farmers to face competition from more efficient producers abroad (Adam 1999; Fox 2003). On average, incomes of farmers have declined more than those of workers (Milanovic 1996). Agriculture has been transformed, especially in South-Eastern Europe, in a strategy for survival, as many have turned to home farming as a way of making ends meet. What resulted was

[67] Dependency ratios refer to the ratio between (wage) earners and dependents (non-earners) within a household; dependents include both children and the non-working elderly;

a type of subsistence crop growing that, although allowed for survival, could only provide with minimal living standards. The underdeveloped nature of the agricultural sector was made even worse by bad infrastructure and reduced access to public services such as health-care or education (Fox 2003). All these factors, together with the fragmented land ownership, hampered agricultural productivity and kept growth in the sector much below national averages (Alam, Murthi et al. 2005). In turn, low productivity and slow growth account for the higher poverty levels that can be found among rural dwellers.

In some countries (for example, Poland or Romania), poverty rates have also varied markedly by region, as mono-industrial and declining industry areas have been much more vulnerable than the rest. Furthermore, large disparities in infrastructure stimulated further concentration of economic activity and employment[68]. Building on the Luxembourg Income Study, Förster, Jesuit and Smeeding take a closer look at the distribution of inequality and poverty between and within regions in four countries, namely the Czech Republic, Hungary, Poland and Russia (Förster, Jesuit et al. 2003). Their results point towards an increase in inequality within and between regions taking place in the first half of the 1990's. Interestingly enough, rises in inequality have been more prominent in countries were initial inter-regional inequality was higher at the outset of the economic transformation. Similarly, there is considerable interregional variation in poverty levels among regions, with the Czech Republic reporting lower dispersion compared to Hungary and Poland.

Beside variation in poverty levels among geographical regions, numerous studies have found a negative correlation between the size of the locality and the poverty rate suggesting that large cities are at an advantage in terms of poverty incidence (Milanovic 1996; Förster, Jesuit et al. 2003). Especially capital cities have low poverty rates when using a national relative poverty line, although using local poverty lines, which probably capture specific local costs of living better than national measures, yields higher figures[69]

Last but not least, poverty has also been prevalent among the rather large Roma minority that lives in the region (Milanovic 1996; Adam 1999; Tóth 1999; Emigh and Szelenyi 2001). Roma communities have continuously suffered from a very weak attachment to the labour market, lacked sometimes even primary education and their families traditionally had a large number of children. All three traits are associated with increased poverty risks. It is an accumulation of risks and disadvantages that pushes the Roma towards the margins of society. Arguably though, discrimination might have also played a role in the perpetuation of poverty among the Roma ethnics.

Finally, demographic characteristics such as age, gender and family composition are also of relevance when it comes to poverty risks (Milanovic 1996; Braithwaite, Grootaert et al. 2000).

[68] An increasing concentration of both GDP and employment in CEE is confirmed by a series of OECD reports; concentration levels are found to be similar or even higher to OECD countries; See Förster, M. F., D. Jesuit, et al. (2003). Regional Poverty and Income Inequality in Central and Eastern Europe. Helsinki, UNU-WIDER.

[69] For an analysis of the impact of using local rather than national lines in measuring poverty levels, see Ibid.;

Female headed households (be they widows living alone or single mothers with their children) display systematically higher poverty incidence and poverty gap figures. Young single persons or young couples with children also experience an increased poverty risk.

2.3.4 TRANSITORY OR PERMANENT POVERTY?

Although poverty has unquestionably gained in occurrence, many studies have claimed that, by and large, it was a transient phenomenon (Milanovic 1996; Fox 2003; Alam, Murthi et al. 2005). Most of the poor households were located relatively close to the poverty line. Since the gap to be closed was relatively small, economic recovery was expected to lift them out of poverty. Given that the first economic shocks took place in a context of lack of liquid assets and inflation devalued savings, which prevented consumption smoothening in the short term, the shallowness of the new poverty seems a plausible hypothesis. Indeed, ownership of consumer durables was found to be largely independent of being poor (Milanovic 1996). Panel studies carried out in Poland and Hungary have confirmed that only a minority of the poor are unsuccessful in escaping poverty during four consecutive years (Spéder 1998; Fox 2003), while substantial mobility in and out of poverty did occur. Furthermore, in early transition, those who succeeded in escaping poverty often managed to climb substantially above the poverty line, while inflows into poverty contained significant numbers of individuals previously located in the middle and higher deciles of the income distribution (Spéder 1998). However, there is evidence that fluidity has diminished considerably starting with the second half of the 1990's as both inflow and outflow rates as well as distances travelled shrank (Spéder 1998). It might be the case that as economic recovery helps many to overcome their (temporary) material deprivation, a stratum of permanently poor begins to crystallize. As poverty becomes a more seldom encountered phenomenon, its severity increases as long-term neediness sets off a cycle of cumulative disadvantages. Those unable to take advantage of the new economic boom become trapped in a marginalized situation, with few prospects of improvement. An analysis of Hungarian data, shows that children, elderly living alone, widow and disability pensioners as well as inactive adults are at much higher risk of experiencing prolonged poverty spells (Spéder 1998; Tóth 1999). Factors such as low education as well as residence in a rural or economically underdeveloped area reduce the chances of finding regular employment and thus add to the prospects of long-term poverty. Facing an accumulation of risk-factors, the Roma are also much more likely to belong to the permanently poor. The very high incidence of extreme poverty in this groups is confirmed by the fact that their share among the poor gradually increases as the poverty line is made more restrictive(Tóth 1999).

3 SOCIAL ASSISTANCE IN CENTRAL AND EASTERN EUROPE: FEATURES AND CHARACTERISTICS

3.1 INTRODUCTION

Going back to the English Poor Law of 1601, means-tested public assistance programs constitute probably the oldest type of state social intervention in the modern era. Their initial objectives though consisted much more in establishing efficient methods of social control rather than in preventing the harshest forms of material destitution. Built on the principles of local administration, local financing, lay discretion and partial loss of citizenship (Lodemel and Schulte 1992; Nelson 2004), and implementing the infamous workhouse test (Guibentif and Bouget 1997; Ditch 1999), Poor Law assistance severely disenfranchised and stigmatised those whom it was supposed to help. The nature, principles and functioning of the Poor Law made it into a very controversial tool of state intervention.

The pioneering and gradual expansion of social insurance programs started in the second half of the 19th century gradually diminished the need for a means-tested state-run public assistance scheme. Yet, even as social insurance became the prevalent form of ensuring income protection and security, some individuals were unable to comply with the required eligibility conditions and fell through the cracks. For them, needs-based social assistance constituted an entitlement of the last resort (Lodemel and Schulte 1992). Starting with the 1970's, concern grew in Western Europe about the inadequacy of social insurance to deal with mounting and resilient unemployment as well as new family forms (Ditch 1999). Even earlier than that, some countries (the United Kingdom in 1948, and Denmark, Germany and the Netherlands in the 1960's) introduced minimum income guarantees as a supplemental layer in their welfare state setup (Lodemel and Schulte 1992; Ditch 1999; Heikkilä and Keskitalo 2001; Nelson 2004). Others soon followed (Belgium in the 1970's, Luxembourg, France and Spain in the 1980's). Partly reflecting an expansion of state responsibility and involvement during the Great Depression era, the United States established Aid to Families with Dependent Children, the federal means-tested public assistance program in 1935.

As the shift from an industrial to a service economy progressed, and as the traditional male breadwinner family model started to break up, tensions on the insurance system accumulated. Not only did insurance programs seem unable to protect the new poor, but they also entailed significant public expenses which started to look increasingly unsustainable in a context of slow growth, significant unemployment and aging. As a result, two tendencies may be observed after 1980 (Ditch 1999). On the one hand, eligibility conditions for some insurance programs, in particular unemployment insurance have been tightened, thus shifting recipients to means-tested programs. On the other hand, within social assistance, a renewed emphasis on

control and removing work disincentives gained ground. The number of social assistance recipients expanded substantially between 1980 and 1996 in all West European countries (Ditch 1999; Aust and Arriba 2005; van Berkel 2007), albeit in some countries it has dropped since (for example, in Sweden (Brännström and Stenberg 2007)).

Unlike insurance based security, social assistance constitutes a unilateral not a reciprocal type of transfer. In most countries, it is considered a 'subjective' right, with no legal entitlement to the benefit and with stringent, often stigmatizing and intrusive conditionality attached. Since the direct tie with employment is severed and since it is, as a rule, made available only to those individuals and families with insufficient resources, potential disincentives to take up paid employment represent a major concern.

Means-tested cash benefits were relatively unknown in the Eastern and Central parts of Europe until the last few decades. Being part of the German and Habsburg sphere of influence, Central Europe developed a strong tradition of state social insurance schemes built on the classic Bismarckian model. Social insurance traditions were much weaker in Eastern Europe, but both regions experienced an implementation of Soviet welfare state variants after the Second World War. Poor relief initiatives were not unknown in either region. A well-established tradition of providing for the poor had developed in Central and Eastern Europe already in the latter half of the XIX-th /early XX-th century (Hering 2006; Schulte 2006). Originally born out of the private initiatives of religious and ethnic communities which sought to use social work as a tool to reaffirm their identities (Hering 2006), social work gradually became the province of local and central public authorities. As in Western Europe, poor relief aimed not only at providing support for the destitute but also to correct and control behaviour (Waaldijk 2006). Eligibility was often conditional on "deservingness" criteria such as willingness to work, "moral" behaviour, or membership in politically favoured groups such as veterans of national independence struggles.

Unlike social insurance programs, the advent of state socialism spelled major changes for relief. In fact, the basic principles of social insurance remained largely unaltered as the Soviet welfare state model was built around the link between employment and benefits. Conversely, social assistance did not fit very well into an employment based security model.

3.2 Safety Nets and Policies to Address Poverty under Communism

Understanding the content and role of social assistance programs under communism is impossible without a thorough consideration of the peculiar way the entire socialist social protection system was organized. As Michael Mandelbaum has put it, the communist welfare state did not have safety nets as it constituted itself one huge safety net (Mandelbaum 1997). More generally, the socialist ideological obsession with the productive process brought about a unique vision on ensuring protection. Briefly put, the entire social protection realm was incorporated into the larger economic one. Social protection was to be achieved by integrating

workers into the productive process, i.e. through the economy and not outside it (Manning 1992; Offe 1993). In practice this meant that social benefits were tightly linked to the workplace, thereby excluding those who did not hold a formal job. However, full employment, quasi-free public provision of services and heavy subsidization of basic goods were deemed to be sufficient to ensure that everybody's needs were satisfied. Additionally, under the pressure of a strong equalitarian ideology, more visible aspects of stratification, such as income or wealth were levelled off somewhat [For a detailed description of the communist welfare setup see (Deacon 1992; Barr 1994; Standing 1996; Connor 1997; Mandelbaum 1997; Hutton and Redmond 2000)].

In fact, in the USSR, early attempts to deal with material deprivation were largely confined to tampering with the wage policy (McAuley 1979). It was considered that raising the minimum wage would constitute the best way to deal with insufficient resources. Only later on, after it became obvious that family circumstances played a greater role in shaping economic need than actual wages, and that repeated increases of the minimum wage did not constitute an effective way of dealing with poverty, did the system of social transfers and benefits expand. Ingrained beliefs about the disincentive effects of decoupling work and material rewards partly explain the reluctance in going outside the productivist logic to ensure need satisfaction.

Despite the official discourse claiming poverty had been completely eradicated in the socialist society, vulnerability remained among those not integrated in the work-eligibility system, such as the elderly, the Roma or large families (Castle-Kanerova 1992; Millard 1992; Deacon 2000). The emphasis on the productive role of the individual refused public support to those members of society who were not able to fit into the work-centred protection mechanisms. Outside work, support was extended only to citizens who could not integrate due to accepted reasons, not to everyone in demonstrable need (McAuley 1979). Poverty was associated with a personal failure to integrate into the productivist logic and therefore it was viewed as stemming from an individual pathology rather than from a malfunctioning of the system (Sipos 1994; Atal 1999; Ringold and Andrews 1999).

In this context, a residualised and heavily social work oriented form of social assistance developed to deal with such "personal failures". In most countries, pre-World War II charities and poor relief organizations were dismantled (Schulte 2006) and their functions transferred to local or enterprise authorities. In some cases, the heavy emphasis on dealing with "deviant" behaviour led to the system becoming medicalised (see the case of Hungary, (Schulte 2006)).

In some rare instances, special "needs" justified public support outside the employment system, such as in the case of the disabled that were entitled to non-contributory pensions (Sipos and Ringold 2005). When no special "needs" were present, social assistance was largely equated with social work aimed at correcting "deviant" behaviour. As a consequence, assistance provisions were exceedingly fragmented, offered on a highly discretionary basis and stigmatizing for the recipients (Sipos 1994; Ringold and Andrews 1999; Sipos and Ringold 2005). Social assistance was far from constituting a right. On the contrary, there was no enforceability of claims (Offe 1993) as, in the majority of situations, decisions made by social workers could not

be contested. Moreover, political discrimination often governed the allocation of benefits[70] (Castle-Kanerova 1992; Offe 1993; Schulte 2006).

The discretionary and ad-hoc features present in the administration and delivery of social assistance were mirrored by the arbitrariness and paternalism ingrained in the design of the benefits. In fact, the actual needs of welfare clients rarely constituted a concern. No systematic investigation of the clients' needs or of the utility they derived from receiving the benefits was envisioned (Standing 1996; Sipos and Ringold 2005). Conversely, no mechanisms were put in place to allow recipients themselves to articulate needs from below (Deacon 2000).

From a more technical point of view, there was precious little administrative experience with targeting. Practically, there were no procedures in place to take into account variation in individual circumstances. Not only social assistance, but the entire social security system was largely based on categorical benefits (Barr 1996; Ringold and Andrews 1999), which meant that transfers were targeted at groups rather than individuals. This group based approached entailed two main disadvantages, at least when social assistance is concerned. On the one hand, a complex and fragmented array of benefits meant overlapping and duplication were relatively frequent, making administration extremely cumbersome and non-transparent (Ringold and Andrews 1999). On the other hand, some of these categorical benefits were actual privileges awarded to groups that were not necessarily more threatened by poverty, for instance war veterans (Ringold and Andrews 1999). Both features hindered the capacity of the existing social assistance provisions to play a significant role in tackling economic vulnerability.

Among the programs that were put in place, two deserve perhaps further consideration. Some authors maintain that family benefits acted, de facto, as an effective safety net due to their high relative value combined with a flat wage distribution and a low level of individual earnings (Sipos 1994). The strong negative correlation between the number of children in a household and its income also made family allowances pro-poor (Milanovic 1993). However, family benefits were more often than not part of the social insurance system, i.e. access to benefits was obtained through employment. Benefits were sometimes available only starting with the second child and were offered for relatively short periods. To illustrate, in the USSR, child allowances were normally extended only until the child's fifth birthday or until the child's twelfth birthday in the case of single mothers (McAuley 1979).

Starting with the latter half of the 1960's, pro-natalist concerns prompted the availability of special benefits to families with three or more children. In some cases (for instance, in the USSR), these transfers were made available on a means-test basis (McAuley 1979). Such benefits were relatively well targeted[71] since large families were also more likely to have a precarious

[70] A well known example is the one in which benefits were not always available to orphans who had "suspect" parentage Castle-Kanerova, M. (1992). Social Policy in Czechoslovakia. The New Eastern Europe. Social Policy Past, Present and Future. B. Deacon. London, Sage Publications**:** 91-117.;

[71] It should be noted that such targeting was implicit; that is to the extent that the demographic characteristics of the beneficiary group were associated with low income, the transfer was redistributive; it did not aim though initially at vertical redistribution.

economic position. Birth grants constituted additional benefits that disproportionally profited large families in a vulnerable economic position. Czechoslovakia offered rent rebates and low interest loans that were linked to the number of children in the family (Heitlinger 1979).

A growing awareness of the conflicting demands imposed on women by their productive and reproductive roles led to a development of legislation to address the issue. Originally, Marxism asserted that the liberation of women entailed the complete socialization of housework. However, as little progress was made on this front, and as quality child-care was very expensive[72], a gradual shift occurred favouring the support of women's domestic and reproductive role in the home rather than their socialization. The most common answer to this problem consisted of (up to three years) paid maternity and parental leaves. Initially put forward only for employed women, some countries such as Hungary or Czechoslovakia eventually extended the scheme to housewives, albeit on less generous terms (Heitlinger 1979; Haney 2002). In effect, this benefit amounted to a carer's wage and most often benefited poorly educated, low skilled, deprived women. However, this arrangement was not present throughout the entire Eastern bloc. In fact, countries like Poland or the USSR lacked a system of paid parental leave altogether[73]. Mothers having a large number of children could be entitled to special pensions or a reduced contribution record such as in Czechoslovakia or the USSR (Yanowitch 1977; Heitlinger 1979; Machonin 1996).

The other peculiarity of the communist social protection net was its over-reliance on residential care for various categories of vulnerable people, such as the elderly, the disabled and orphans (Sipos and Ringold 2005). This type of service tended both to lack quality and to be relatively expensive. Apart from being forced to endure poor living conditions, residents of this type of institutions were also cut-off from the rest of society. Practically, they were isolated with dim perspectives of long-term community integration (Ringold and Andrews 1999).

Although the above observations are generally valid for the entire East-European communist bloc, considerable variation existed among countries both in registered poverty levels and in the institutional mechanisms put in place to address poverty related issues. During the peak of the industrialization era, consumption issues were hardly given attention. However, as economic growth slowed down and living conditions stabilized at a low level, poverty became more visible. The timing and depth of this phenomenon varied across countries. While in Czechoslovakia "pauperization has been a fact since the late 60s" (Castle-Kanerova 1992), in Poland the increase in poverty became apparent especially after the 80's following the onset of the economic crisis (Millard 1992)[74].

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[72] In Czechoslovakia, where relatively high-quality child care existed, it was estimated that each nursery place cost around 30% of average earnings Heitlinger, A. (1979). Women and State Socialism. Sex Inequality in the Soviet Union and Czechoslovakia. London, Macmillan Press Ltd.

[73] The USSR did introduce in 1974 a means-tested family supplement that was awarded to qualifying families until the child turned eight;

[74] An official estimate put the poverty incidence in 1980 at 19% of families; however this figure might well be an underestimation Millard, F. (1992). Social Policy in Poland. The New Eastern Europe. Social Policy Past, Present and Future. B. Deacon. London, Sage Publications**:** 118-143.

Answers to the phenomenon of rising poverty were equally variegated. For example, Bulgaria provided special assistance to pregnant women who had not received higher education or who had not been in employment in the last six months (Deacon and Vidinova 1992). The aid consisted of the maternity benefit at the minimum wage rate being payable for longer periods. In-kind provision (food, clothes etc.) was often preferred over cash. Administration lay with the local authorities. Decisions could be contested by appealing to a higher administrative authority but not to an independent tribunal.

In Poland, not only the local councils had responsibilities in providing for the less well-off but also the enterprises. The latter were to play a role especially in providing for their needy employees (Millard 1992). Social workers enjoyed a large discretion margin in providing benefits both for the "needy" and for the disabled.

In Hungary, the system underwent far-reaching transformations after the 60's (Szalai and Orosz 1992). A shift occurred in the composition of social policy that favoured cash transfers over social services. As a result, cash benefits acquired a bigger share in overall household consumption but access and quality of important social services visibly deteriorated.

Although fairly developed by present day standards, socialist welfare states lacked an institutionalized mechanism to effectively tackle poverty. As a matter of fact, the poverty issue was given little prominence as the socialist strategy focused on ex-ante solutions that were supposed to prevent all households from falling into a state of economic precariousness. Put differently, risk coping strategies were largely absent as the focus rested with risk reduction and risk mitigation (Ringold and Andrews 1999). Existing benefits and transfers while often representing a substantial portion of a household's budget[75], were, as a rule, not designed to equalize incomes or to prevent material destitution. On the contrary, especially cash benefits were strongly and positively correlated with income, acting as wage supplements rather than redistributive elements. Some universal benefits, such a family allowances, care grants, free access to social services such as health-care and education, by virtue of their implicit targeting towards lower income groups, did act as a last resort safety net in supporting individuals in vulnerable economic positions. Yet, no social program was deliberately aimed at mitigating material need. Still, although officially not recognized as such, poverty emerged, in most CEE countries, as a growingly worrisome issue during the economic crisis which preceded the collapse of the regime (Atal 1999).

[75] McAuley estimated that in the USSR, between 1960 and 1970, social consumption, i.e. cash and in-kind transfers represented, on average, 25-28% of the total income of a family McAuley, A. (1979). Economic Welfare in the Soviet Union. Poverty, Living Standards and Inequality. Madison, The University of Wisconsin Press.;

3.3 SOCIAL ASSISTANCE SCHEMES DURING THE 1990S

The complex transition processes that have taken place in the post-communist space have been much debated. Yet, the bulk of the discussions have concentrated on economic transformations and policies. Much less attention has been devoted to social issues. Policy makers themselves tended to prioritize economic reforms over their social counterparts. Social sector issues were seldom touched upon in the initial macrostabilization and structural reform packages (Nelson 2001). To a certain extent, this situation was to be expected. Social policy issues are much more sensitive from a political point of view, as "in contrast to macroeconomic stabilization, institutional reforms are likely to mean permanent losses to specific groups, which may prompt tenacious resistance"(Nelson 2001). Additionally, the institutional building process needed in the social sector was considerably more demanding as it presupposed the existence of a well-developed and capable administration, the cooperation and support of various agencies both inside and outside the central government, as well as a longer time available for implementation and consolidation.

It is precisely this institutional building process that proved to be a real Gordian knot. Social measures taken so far have broadly fallen into two categories. On the one hand, "emergency" measures were taken to tackle the emergence of new social problems (such as unemployment) or the acutization of older ones (such as low living standards and poverty). Yet, addressing these social problems was seen more "as a political necessity rather than an aspect of good government" (Millard 1992). More specifically, the role of social policy measures resided primarily in garnering popular support for the "painful" economic restructuring (Deacon 1992; Offe 1993; Kramer 1997; Mandelbaum 1997; Scholz and Tomann 1999), and less in settling distributional issues.

As a result, adopted decisions were largely ad-hoc, erratic and many times contradictory (Offe 1993; Inglot 2007). On the other hand, major institutional reforms (the most telling example is that of pension reform) were pushed through mainly on fiscal grounds, designed and backed by Ministries of Finance rather than by Ministries of Welfare (Hausner 2001; Nelson 2001).

Despite the general low prioritization of social issues, there is considerable heterogeneity among post-communist countries in the extent they were able to prevent the emergence and subsequently to cope with such problems.

Research on Central and East European safety nets is rather piecemeal and inconclusive. Indeed, up to the moment, there have been few attempts to build up a comprehensive cross-country comparative compilation of social assistance program features. Equally, very little is known about the effectiveness of implemented schemes in alleviating poverty. Much of the literature concerning social assistance was rather preoccupied with recommending its reform rather than rigorously analyzing what the existing provisions actually accomplished [one notable exception is (Milanovic 2000)]. On the one hand, drawing on neo-liberal arguments relating to

expenditure containment and work disincentives, one strand of studies emphasised (one might say excessively) targeting as the main dimension of social assistance at which improvement efforts should be directed (Sipos 1994; Barr 2002; Fox 2003; Sipos and Ringold 2005; Ringold, Kasek et al. 2007). On the other hand, in opposition to the neoliberal camp, another type of research focused on social rights rather than on cost reduction. As a result, it stressed the negative outcomes that might stem from the tightening of eligibility rules and the use of inflation to implicitly reduce benefits (Standing 1996; Atal 1999). While providing useful insights both into the demands faced by social assistance systems and into some of their possible shortcomings, these studies fell short of actually gauging the impact of social transfers on living standards. Nor did they succeed in comparing systematically schemes in a cross-country or cross-temporal perspective. Arguments were either based on a normative discourse or derived primarily from economic theory. Little empirical evidence was mustered to support the claims put forward (one notable exception will be discussed further on).

Yet, a review of scholarly work dedicated to the topic of social security in the post-communist area yields several interesting findings regarding the main stages in the construction and development of social assistance schemes in Central and Eastern Europe. Much like the entire social protection system, social assistance programs have experienced considerable flux. Since being introduced for the first time, they have undergone substantial modifications in almost every important aspect. In the following section, I provide a brief overview of the knowledge gathered so far.

3.3.1 CHARACTERISTICS

Early social assistance schemes in Central and Eastern Europe differed from their Western counterparts in several important respects. The differentiation supposedly was due to the much smaller financial and administrative resources that post-communist countries had at their disposal. Essentially, three distinguishing features have been identified in the literature (Sipos 1994; Milanovic 1995; Barr 2002). Firstly, the aim of benefits is not to eliminate poverty but rather to relieve it, i.e. not the entire poverty gap is filled. Secondly, benefits in kind form a much bigger part of the package on offer. Thirdly, low income by itself is not enough to ensure eligibility. Due to difficulties and unreliability of means-testing, indicator targeting becomes an important substitute. By now however, all Central and East European countries have introduced minimum guaranteed income schemes, following West European practices. The process of becoming a member of the European Union may have also played a homogenization role (Sissenich 2007). While no European hard law on social programs exists, the Council's recommendation from 1992 encourages the introduction of universal minimum guaranteed income schemes that top up resources when income falls below a threshold deemed necessary for leading a decent and dignified life (Guibentif and Bouget 1997; Heikkilä and Keskitalo 2001).

By and large, social assistance schemes have not formed an important pillar of the broader social protection system. These programs have generally reached small shares of the population and have constituted only a tiny fraction in overall social expenditure (Fox 2003). Together with unemployment insurance, social assistance constituted 10% of social expenditure in Poland in the mid-1990s (Rutkowski 1998), while social assistance payments in 1996 in Hungary totalled 3.3% of cash transfers (Lelkes 2000). Tables 3.1 and 3.2 provide an overview of spending on minimum income guarantee programs, as well as of percent of the population covered, in several CEE countries from 1999 to 2004.

Table 3.1 Spending on minimum guaranteed income programs (as % of GDP)

	1999	2000	2001	2002	2003	2004
Czech Republic	0.38	0.45	0.42	0.45	0.48	0.46
Estonia	0.41	0.34	0.34	0.30	0.26	0.17
Latvia	0.03	0.02	0.02	0.02	0.04	0.05
Lithuania	0.17	0.19	0.18	0.17	0.17	0.11
Poland	0.40	0.38	0.38	0.44	0.41	0.19
Slovakia	1.13	1.11	1.13	1.04	0.75	0.48
Slovenia	0.22	0.22	0.24	0.31	0.44	0.48

Source: (Ringold, Kasek et al. 2007)

Table 3.2 Receipt of minimum income guarantee programs (% of population receiving benefits)

	1999	2000	2001	2002	2003	2004
Czech Republic	--	--	--	--	4.0	3.6
Estonia	5.9	4.8	5.2	5.1	3.8	2.5
Hungary	0.3	0.5	0.9	1.2	1.4	--
Latvia	2.2	2.6	2.7	2.9	2.9	3.2
Lithuania	2.9	3.3	3.4	3.4	3.4	2.4
Poland	4.2	4.2	3.6	1.7	1.5	--
Slovakia	5.5	5.9	6.0	6.0	5.2	3.3
Slovenia	1.6	1.6	1.7	1.9	2.4	2.7

(Ringold, Kasek et al. 2007)

It must be said at this point that the need for social assistance programs might be decreased by the existence of "functional equivalents", i.e. mechanisms of providing income to those unable to access the formal labour market. Some of these equivalents are of economic nature. For example, the sizeable unofficial economy developed during late socialism and early transition has often been claimed to provide an alternative to unemployment (Greskovits 1998). Alternatively, economic migration to the West of one or more of its member may offer a family another strategy to secure an income flow. Aside undocumented labour or migration, needy individuals may be channelled towards other social programs. Instead of relying on a general means-tested scheme, a redistributive system may resort to an array of programs designed to serve well-defined categories ranging from disabled, older people, care-takers, parents or

unemployed. Establishment of such categorical transfers in principle diminishes the need for targeted social assistance, as materially deprived individuals are eligible for other types of benefits.

On the one hand, use of a categorical instead of a general system may have carried the advantage of better targeting. As accurate income data has been notoriously difficult to obtain, social categories more likely to find themselves in a precarious material situation, such as single parents, large families or the disabled were more easily identifiable. On the other hand, such fragmentation of the system may breed "holes" and inequities between various social groups. Materially deprived individuals, who do not fit either of the categories, fall through the safety net. Moreover, a segmented system, where various categories are separated into distinct programs may contribute to the idea that some groups are more "deserving" than others and thus generate stigmatization.

Indeed, judging by the extent of social assistance both as financial effort and as proportion of the population covered, this type of scheme played a minor role in redistribution in Central and Eastern Europe. More often, the benefit system was designed to serve various social groups through distinct programs. However, often, part or all of the benefits targeted at a given category, were subjected to income-tests (for example child benefits in the Czech Republic, Poland and Hungary, maternity benefit in Hungary, unemployment allowances in various countries, minimum social pensions etc.). Therefore, income testing, although not asset testing, has been combined with a group membership as a principle of entitlement. To a significant degree, the categorical system has been maintained alongside the general system, once the minimum guaranteed income schemes have been introduced (see Table 3.7 in the next section).

Residential care, a major element of the communist social assistance setup, gained in frequency of use during the first transition years especially in the case of the disabled and that of children (Ringold and Andrews 1999). The expansion in the utilization of residential care occurred despite previous chronic problems of poor quality and high expenditure. Furthermore, living conditions for residents worsened even more due to the tightened budgets and rising operating costs experienced in early transition. Countries in the region have moved towards foster care and community based services, but some have done it sooner (Slovakia) rather than later (Romania).

In their early years, social assistance schemes faced also numerous problems in implementation, such as missing data, missing benefits, gaps in coverage and non-receipt of entitlement, a shortage of qualified and motivated social workers etc., making "poverty relief patchy throughout the region" (Barr 1996). In particular, monitoring procedures needed for the evaluation and improvement of existing programs were largely missing (Ringold and Andrews 1999). Consequently, precious little was known about the characteristics, needs and evolution of welfare clients. Since then, significant improvements have been made in terms of modernizing information systems, including financial and property assets in eligibility rules, increasing the role

of social workers to provide outreach services and reforming administrative procedures (Fox 2003; Ringold, Kasek et al. 2007).

Despite these general trends, safety nets in Central and Eastern Europe have by no means followed a unique design pattern. Substantial country variation exists in several aspects such as the importance that is to be given to means-testing as opposed to universal or contributory benefits, share of the population that is covered, generosity and complementary measures associated to the income support. First of all, some countries decided to submit previously universal benefits (such as child allowances or maternity benefits) to income-tests (as in the case of the Czech Republic, Hungary and Poland). Secondly, inflation has often been used by governments to adjust various benefit levels, social assistance included. Whereas initially generous, benefit amounts declined dramatically as governments failed to price-index them. For example, from 1991 to 1997, the official subsistence minimum declined in real terms by 88% in Lithuania and 69% in Bulgaria (Ringold and Andrews 1999). Indeed, as a general trend, social assistance benefits were more often set according to budgetary concerns rather than on the basis of a subsistence basket. Nonetheless, average benefits were markedly higher in some countries compared to others (See Table 3.3).

Table 3.3 Average yearly social assistance benefits (in $ PPP)

		Poland 2004	584
Estonia-2003	421	Latvia 2002	50
Estonia-2004	467	Latvia 2004	47
Hungary-2000	317	Lithuania 2000	324
Hungary-2004	426	Lithuania 2004	214
Poland 2000	472	Slovenia 2003	690

Source: (Ringold, Kasek et al. 2007)

Thirdly, the importance given to in-kind benefits in the larger assistance package varied. Some countries made part of these benefits available to larger sections of the population by administering them separately and by allowing higher income thresholds than in the case of social assistance support (for example, Romania and Bulgaria). The bulk of in-kind benefits consisted of subsidies to cover rising housing and utilities costs, especially during the winter[76]. Other in-kind provision consisted of free school meals, free or subsidized public transportation, free medical services etc. (Ringold and Andrews 1999).

Finally, two issues merit further discussion as they have been the centre of heated controversies, not only in the context of the post-communist transition but also in the framework of research on the West European welfare states. The two contentious topics that I

[76] Bulgaria introduced in 1995 a targeted winter benefit, while Romania adopted a lifeline tariff so as to protect the economically vulnerable Ringold, D. and E. S. Andrews (1999). Safety Nets in Transition Economies: Toward a Reform Strategy. Social Protection Discussion Papers. Washington D.C., World Bank.;

would like to refer to are decentralization and work incentives. In the case of the former, two opposing views have been formulated. The first one argued in favour of decentralization on the account that local authorities have better information at their disposal to identify the "truly" poor. The other view singled out two negative externalities in the form of "welfare migration" (recipients migrating where benefits are higher) and cost-explosion if funding remains essentially at the central level(Sipos 1994; Barr 2002). Note that although pointing to different directions, both positions assigned cost containment and "efficiency" as a primary goal.

Central and East European countries opted for different levels of decentralization of their social assistance schemes. The issue of decentralization regards several dimensions, namely administration and delivery, financing and decision-making about rules governing eligibility and minimum amounts to be awarded. As far as the first two aspects are concerned, local authorities are generally the ones charged with the task. On the other hand, financing and decision-making have been less likely to become solely the responsibility of local authorities. Hungary is the only state that has chosen to initially completely decentralize both financial and decision-making responsibilities. While national guidelines do exist, Hungarian local authorities are free to set both the amount and the duration of the benefit, while at the same time bearing the entire burden for its financing (Lelkes 2000). In-between, the majority of countries preferred to set national mandatory regulations regarding minimum levels, leaving local authorities the possibility to discretionally augment them. Simultaneously, some central budget financial support is provided.

Decentralization of poor-relief has often proceeded in an ad-hoc manner as both the central government and enterprises attempted to pass some of their previous social responsibilities onto unprepared local governments (Ringold and Andrews 1999; Deacon 2000; Reuterswärd 2003). The result has been that social assistance programs have been left unfunded in the poorest municipalities, while in the richer ones, benefits have been available to a wider segment of the population. Lack of funds and low institutional capacity at the local level translated into use of ad-hoc eligibility criteria as a way of rationing scarce resources (Ringold, Kasek et al. 2007). Geographical inequalities have led some countries to partly recentralize their schemes (for example, Romania, Bulgaria and Latvia) (Ringold and Andrews 1999; Ringold, Kasek et al. 2007). Moreover, evidence so far suggests that decentralization is far from improving targeting[77].

The second theme that has been a central concern to many studies of social assistance schemes is the issue of work incentives and the so called "welfare dependency" culture. In particular, too generous benefits were seen as deterring clients from entering formal employment. A number of remedies have been proposed to address this danger (Ringold and Andrews 1999; Barr 2002; Sipos and Ringold 2005; Ringold, Kasek et al. 2007). First, keeping

[77] Despite having the most decentralized social assistance scheme among the Baltics, Latvia experience leakage levels of over 80% Ringold, D., L. Kasek, et al. (2007). Social Assistance in Central Europe and the Baltic States. Washington D.C, World Bank.

benefits low and limiting entitlement duration had the role of making paid work financially more attractive. Generally, benefits offered through social assistance programs have been low compared to minimum wages throughout Central and Eastern Europe (See Table 3.4). This however has not proved to be the answer for long-term unemployment. Furthermore, there is a huge problem with adequacy as minimum wages tended to be low as well.

Table 3.4. Social Assistance Benefits and Minimum Wages

	EE	HU	LV	LT	PL	SI
Average received SA benefit as % of minimum wage-2003/4	15	10	2	7	14	10

Source: (Ringold, Kasek et al. 2007)

Second, as a way to prevent misuse, an increased policing of the willingness to work was recommended. Again, this recommendation has been put into practice. Presently, all social assistance schemes in CEE link benefit receipt by a formal connection with the employment office. In most cases, recipients are required to accept job offers or training programs that have been presented to them[78]. Third, the taxes and social security contributions have been seen as detrimental to employment take-up. Together with relative low wage-benefit differentials, high taxation increases the marginal effective tax rate of labour earnings, creating a so-called unemployment trap (Ringold, Kasek et al. 2007). This phenomenon is typical in countries with wide wage distributions and low minimum wages. As, in the last decade, Central and East European countries experienced both a significant widening of the wage distribution and the persistence of relatively low minimum wages, in-work benefits have been advocated as a way to tackle possible emerging poverty traps and, more generally, the problem of the working poor (Ringold, Kasek et al. 2007). In fact, some countries have already followed this advice. Estonia has introduced in-work benefits, while Slovenia and Hungary have benefits that taper of gradually as income from employment increases.

The interest in work (dis)incentives incorporated in social assistance schemes in Central and East European countries was partly motivated by their increased role in providing resources for the unemployed. For example, a study based on Hungarian data from 2006 revealed that more unemployed people received social assistance than unemployment insurance (Lelkes 2006). Similar patterns were and continue to be common throughout the region. Two factors have contributed to the high number of unemployed on social assistance rolls, namely a persistence of long-term unemployment and a tightening of the eligibility and duration rules of unemployment insurance programs (Boeri and Edwards 1998; Boeri and Terrell 2002). Rapid exhaustion of unemployment insurance benefits has meant that the burden of income support has quickly been taken over by social assistance. Although social (or unemployment) assistance was often

[78] In Slovenia, recipients must prove that they have actively been seeking work or participated in an active labour market program *before* they qualify for benefits while in Estonia unemployed members that are not registered at the employment office are not counted when calculating the benefits Ibid.;

preferred on financial and incentive grounds, moving from unemployment insurance to means-tested benefits has actually increased replacement rates in some countries[79] for households that had many children and a non-working spouse (Boeri and Edwards 1998). As a consequence, the early shift from unemployment compensation to social assistance not only failed to economize on spending but brought in a plethora of administrative problems, ranging from expensive and inaccurate targeting to distortions stemming from decentralized social spending (Boeri and Edwards 1998).

3.3.2 IMPACT ON INEQUALITY

There is plenty of controversy regarding the extent to which Central and East European Countries have been able to put in place an effective safety net during their political and economic transition. Some have argued that the "social safety net has helped to mitigate the negative effects of transition on income inequality, especially for the most vulnerable portions of the population" (Roland 2002). On the contrary, others have claimed that insufficient social reform left behind a too complex mix of benefits, "neither fish nor fowl", which failed to reach those most in need (Ringold and Andrews 1999). Heavy reliance on categorical benefits together with weak institutional coordination, unclear division of tasks between agencies and ministries, lack of flexibility and over-bureaucratic institutions were maintained to be the factors responsible for the establishment of a system that duplicated benefits for some groups while leaving others completely unprotected. Instead, a new system in which social assistance programs, especially guaranteed minimum income schemes, would be given significantly more weight was claimed to be much more effective in providing a basic but unswerving safety net. The recommendation draws on empirical evidence showing that in Central and Eastern Europe, unemployment and social assistance benefits are much more likely to go to the bottom quintile (Table 3.5), while pensions (which form the biggest expenditure item) are much more likely to go to the better off (Ringold, Kasek et al. 2007). In part, this situation is to be expected as pensions are income-related transfers and serve primarily consumption smoothening purposes and not poverty alleviation ones. However, an interesting finding has been that pensions not only do not diminish inequality but actually substantially add to it. For example, in Poland, pensions were the second largest inequality generator, their contribution amounting to almost a third of the total Gini value (See Table 3.6).

[79] In Romania and Slovakia, the shift from unemployment benefits to social assistance increased the benefits received by couples with a non-working spouse (especially if the couple also had many) after six months after the loss of the previous job Boeri, T. and S. Edwards (1998). "Long-term unemployment and short-term unemployment benefits: The changing nature of non-employment subsidies in Central and Eastern Europe." Empirical Economics **23**(1-2): 31-54.

Table 3.5. Concentration coefficients[80] of social assistance transfers and proportion of transfers going to the bottom quintile

	BG	EE	HU	LV	LT	PL	RO	SK
Concentration coefficient-1993-95	-3	-16	-25	+10	-10	-13	+9	-53
% of SA transfers received by bottom quintile (1992-95)	36	36	35	--	--	29	23	52

Source: (Milanovic 1998)

Table 3.6 Components of inequality in Poland

	Concentration coefficient-1995	Concentration coefficient-1989	Contribution to Gini[81]-1995
Labour(wage) income	31.7		45.5%
Self-employment +farm income	41.0		22.4%
Total market income	34.3	34.5	67.9%
Pensions	35.9	-2.6	29.1%
Family allowance	-18.2	-11.9	-1.2%
Unemployment benefits	-19.1	Not applicable	-1.4%
Cash social transfers	26.5	-4.5	26.6%

Source:(Rutkowski 1998)

In one of his studies, Milanovic (Milanovic 2000) compared the basic governing rules of social assistance schemes and their impact on poverty (defined in terms of the national poverty line) in four countries: Bulgaria, Hungary, Estonia and Poland. Drawing on variation in poverty level, coverage and relative benefit importance for poor households, Milanovic established a three-class typology. It distinguishes between concentrated (reduced coverage, high relative benefit), dispersed (high coverage, small relative value of the benefit) and irrelevant (reduced coverage and small benefit) systems. However, using effectiveness (poverty gap closed for the lowest decile), efficiency (share of transfers disbursed to the lowest decile) and relative effectiveness (effectiveness divided by spending on social assistance as % of social protection) as evaluating criteria failed to yield any consistent pattern linking program type to achieved results. Other attempts to determine the effects of social assistance schemes on the region's poverty levels and intensity resulted in small impact estimates (Fox 2003; Ringold, Kasek et al. 2007).

[80] The concentration coefficient measures the correlation between the distribution of an income source S and the distribution of total income; it ranges between -1 and 1 (however, here numbers have been multiplied by 100); negative numbers indicate an inverse relationship between the income source S and total income; in the case of transfers this denotes progressivity, i.e. larger sums go to those with a smaller total income; similarly, positive numbers denote regressive transfers, i.e. those who receive more also have more;

[81] The figures are derived from a Gini decomposition procedure which allows to pinpoint what the marginal change in overall inequality would be, given that a given income source would increase/decrease, become more/less unequal; it is based on the relative size of the respective income source in the overall income, on its inequality of distribution and the correlation with the distribution of overall income;

Interestingly enough, with the exception of Slovenia, means-tested benefits are more common in the EU15 and in the OECD countries than in the New Member States[82] (Fox 2003; Ringold, Kasek et al. 2007). Conversely, social insurance contributory benefits, especially pensions, weigh much more heavily within social transfers. Unlike other benefits that were subjected to passive downward revisions, pensions have been much better protected against inflation (Rutkowski 1998; Lelkes 2000; Fox 2003). Early retirement has also had a wider reach in terms of coverage compared to unemployment insurance and social assistance schemes. As a result, pensions were the biggest expenditure item in the social expenditure budget. To be able to finance growing pension entitlements, governments often cut spending in other areas, poverty relief among them. "The growth in pension spending has overshadowed what was assumed to be the major focus of the social welfare budget during the transition, namely a social safety net to protect vulnerable groups from emerging risks" (Rutkowski 1998).

Although the socialist system has often been criticised as unable to tackle problems of poverty as its role was to give everyone a stake and harness political support for the regime rather than redistribute (Barr 1996; Rutkowski 1998), its main features have been preserved with little alteration during the 1990's. This has come as a surprise to many students of post-89 public policy in Eastern Europe, especially given the dominance of the neo-liberal discourse within domestic and international (IMF, World Bank) policy circles. Especially economists, but also sociologists argued that targeting is preferable on two grounds[83]. First, it reduces public expenditure and hence fosters economic growth and second it is more equitable since a larger share of resources goes to the neediest. Despite the popularity of these arguments, targeting has been used on a startlingly small scale. Several reasons have been put forward in an attempt to justify this finding. Firstly, the previous residual nature of social assistance programs and the stigma generally associated with poverty relief has been deemed to lower political support for this type of means-tested and generally, targeted, schemes (Ringold and Andrews 1999). However, means-tested benefits are rarely benefiting from wide popular support, irrespective of the communist experience. More generally, there is a targeting-taxability trade-off in which tax payers are less reticent to pay for universal benefits (Deacon 2000). Hence, this is a problem that social assistance schemes in all democratic societies must confront.

Secondly, some authors have noted that in a context of overall declining living standards, targeting becomes more difficult to implement (Ringold and Andrews 1999; Fox 2003). As economic reforms were gradually implemented, the large majority of the population suffered real income losses and felt entitled to claim some sort of compensation. As a result, attention was focused on transition shock, while concerns with the welfare of the poorest stratum were less prominent.

[82] Based on 2003 figures;

[83] For a broader discussion, see Haney, L. (2002). Inventing the Needy. Gender and the Politics of Welfare in Hungary. Berkeley University of California Press.

Thirdly, despite being hailed as very egalitarian, the socialist social protection system contained numerous privileges, not just for the nomenklatura but also for various social categories that were considered particularly "valuable" for the regime. Some occupational groups benefited from advantageous conditions regarding pay, sickness insurance and retirement. Such categorical privileges proved to be very resilient to reform (Ringold and Andrews 1999). Usually, groups benefiting from special terms were also more able to organize politically to defend their interests. Re-channelling resources from these groups towards social assistance clients has been politically unattractive.

Finally, technical issues might also be responsible for the marginal role of social assistance schemes in Central and East European Countries (Ringold and Andrews 1999; Fox 2003). In particular, targeting is known to require substantial administrative capabilities that were largely absent in the early years of transition. High informalization and lack of indicators strongly correlated with poverty further compounded the difficulty of targeting (Fox 2003). Instead of experimenting with new programs, countries largely preferred to rely on the already tested institution of social insurance.

3.4 CHARACTERISTICS OF SOCIAL ASSISTANCE SCHEMES IN CENTRAL AND EASTERN EUROPE BETWEEN 2004-2007

The preceding section has cast a bird's eye on the main findings in the literature on social assistance in Central and Eastern Europe. The following subchapter is dedicated to an in-depth and comparative examination of program characteristics. It will attempt to accurately answer both the question of who gets how much under what conditions and that of how much resources are devoted to how many recipients.

Much of the scholarly research on social programs has taken the financial point of view as its main focus. Country comparisons of social spending have probably been much more frequent and detailed than investigations of other constitutive elements of the social protection setup. Following this tradition, although not resuming to it, I start by presenting data on social assistance expenditure, based on data released by Eurostat.

Expenditure and number of clients are only one side of the coin. They reveal the size of a program but expose little about its inner mechanisms. Who and under what conditions gets a share of the redistributed pie is just as important as how much and how many. Put differently, social assistance programs like all redistributive mechanisms work with certain rules. In the following, I take a closer look at key characteristics of the social assistance setup and their cross-country variation in eight Central and East European states that comprise the core of this study. In doing so I draw heavily on information relating to social assistance programs made available via the Mutual Information System on Social Protection on EU Member States and the EEA (MISSOC). To supplement gaps in MISSOC, I also use the information provided in the country

chapters of the OECD's 2007 Benefits and Wages (OECD 2007), as well as in the Social Protection in the Candidate Countries series ((GVG) 2003).

First of all, some general data regarding the programs is presented. This includes information on the timing of introduction and of major changes, as well as on additional benefits offered alongside the main benefit to social assistance recipients. Secondly, I use EUROSTAT provided macro data to build a picture of the amounts of resources devoted to social assistance. Thirdly, I discuss the tests on which eligibility is based, namely the means test and the work test. Fourthly, the generosity of the system is examined. Last but not least, I take a closer look at the (de)centralization of the programs.

3.4.1 General Information

By the end of the 1990's, all countries in the Central and East European bloc have established minimum income guarantee schemes for their residents. The introduction of this form of public assistance took place as early as 1990 in countries such as Poland or Lithuania and as late as 1995 in Romania and Latvia or Estonia (See Table 3.7 on the year of the introduction of social assistance in each country, as well as on the year of major reforms of the system). All of them share a number of common characteristics, largely replicating the basic model of minimum guaranteed income programs found in Western Europe (Lodemel and Schulte 1992). First, they represent a last resort type of public aid, meaning that all other personal resources, entitlement to other types of benefits and sometimes even family support have to be exhausted before accessing the benefit. Second, individual resources are assessed usually both in terms of income and in terms of assets. The exact assessment procedure however varies (a more thorough discussion of income and asset test is found in subsection IV.3 below). Third, in addition to a means-test, claimants have to undergo a so called work test. All able bodied adults (some exemptions are granted for single parents with very young children) must be working, or searching for work and available to take up the first employment opportunity. Fourth, benefits are normally available for an unlimited time period as long as the qualifying conditions are satisfied. Fifth, the entitlement is not individual, but family or household based. If other family or household members have enough resources to pull a claimant above the poverty line, the granting of the benefit is not warranted. Finally, benefits are normally financed from general taxation, although the exact central-local mix may differ from one country to another.

To be sure the introduction of social assistance was mainly linked to the alarming spread of a new phenomenon, namely long-term unemployment. Jobseekers that exhausted their entitlement to unemployment compensation were left without any kind of income replacement. Yet, some countries chose to ignore this problem until the mid 90's. Furthermore, social assistance was often not introduced as a wide-casted net. That is, instead of having a general scheme to cover all cases where income fell below a certain threshold, many countries chose to introduce an array of income-tested or means-tested transfers that incorporated also categorical

features in their entitlement conditions. The elderly, single parents, care-takers, disabled persons and the unemployed often had separate schemes run for them. Thus, fragmentation of the income support system ensued.

Table 3.7 Overview of Social Assistance Schemes in CEE

	Year SA first introduced	Major changes	Additional benefits
CZ	1991 (1988)	2006- change to two tier system; rules for setting the benefit amount changed	Housing support.
EE	1995	Benefits adjusted in 2005 and 2007	Housing expenses deducted before establishing entitlement. 2002-local municipalities must provide emergency SA= food, clothes, shelter. Municipalities required to provide social housing
HU	1992 (1979)	1997-regular social benefit for unemployed (UA) introduced; previously SA-only local; 2006-reform changing the way the benefit is computed; temporary work no longer barred (but income included in income test)	Home maintenance support provided by the local authorities; higher income threshold than SA, but income and asset test.
LV	1995	2003-minimum amount set nationally; local authorities may grant additional benefits	Rent and utility allowance (national amount very low but municipality may top it up). Free school meals. Allowance for care and for upbringing of children. Allowance for single pensioners.
LT	1990	1993-radical reduction of the value of the basket of goods; food expenditure increased from 46% to 70% of basket's value	Compensation for heating, hot and cold water- funded by the local budget. Free school meals. Free school transportation. Maternity benefit for non-insured female students- paid from the central budget.
PL	1990 (1973)	1996-introduction	Housing allowance- paid by the local

	Year SA first introduced	Major changes	Additional benefits
		of price-indexation	government
SK	1993	1998-new fully fledged law on SA	Housing benefit. Benefits for the disabled.
SI	1992	2001- important increase in the level of SA; benefit reaches 60% of AW for 2 adults and 2 children; 2007- stricter work search requirements	Rent allowance (up to 25% basic amount of min income). Attendance supplement for the disabled.

Source: ((GVG) 2003; (GVG) 2003; (GVG) 2003); MISSCEECII Tables and MISSCEEO Tables;

In addition to the main benefit, additional assistance was available to recipients, mainly in the form of support with housing and with the payment of utilities. Six out of eight countries have implemented a separate transfer aimed to help those on low-income to pay for their housing (See Table 3.7). Usually, this benefit is not strictly linked to the receipt of social assistance. Instead, it is available to larger strata of the population as the income thresholds determining entitlement are often higher than those for the regular monthly benefit. Nevertheless, the amount of the benefit is usually low, well below average rent levels. In some cases, local authorities are required to provide social housing. However, this requirement is seldom fulfilled as the demand for social housing vastly exceeds the supply.

As part of the liberalization process, governments gradually reduced or eliminated energy subsidies. The withdrawal seriously impacted on general household welfare, especially in the cold season when the heating bill could absorb a large share of the household income. To partly offset the losses, one country (See Table 3.7) has introduced energy/utility benefits targeted at the lower-income households. Just as with housing support, the benefit was generally made available on a larger scale than the basic social assistance monthly benefit.

3.4.2 EXPENDITURE ON SOCIAL ASSISTANCE PROGRAMS

One angle from which one can analyze a social policy consists of the public resources devoted to it. This subpart presents expenditure data on social assistance programs in the eight Central and East European Countries. Ideally, precise figures on minimum income support, as well as related benefits, expenditure would be presented. The figures represent expenditure on means-tested[84] benefits under the social exclusion function of social protection. Two kinds of

[84] Only direct cash or near-cash payments (ex: housing allowances) are counted; other benefits as access to public services such as health-care or education is not included.

statistics are presented, social assistance expenditure as percentage of the GDP and as percentage of the total social expenditure bill (See Table 3.8). The underlying rationale for the use of two measures instead of one is that each of them reflects a different aspect of social assistance expenditure. While assessing it in terms of a GDP percentage sheds light on how much resources a social assistance system enjoys, expressing it in terms of a percentage of social expenditure points out the importance of the social assistance component within the overall social protection architecture.

Table 3.8 Expenditure on total means-tested benefits in Central and Eastern Europe

	Expenditure means-tested benefits as % GDP				Expenditure on means-tested benefits as % social protection benefits				Expenditure on means-tested benefits as PPP/ inhabitant			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
CZ	0.4	0.4	0.4	0.1	2.18	2.06	2.04	0.60	66.2	64.9	67.3	21.6
EE	0.1	0.1	0.1	<0.1	0.93	0.79	0.49	0.40	14.8	13.6	9.2	8.5
HU	0.1	0.1	0.1	0.1	0.34	0.38	0.37	0.35	9.4	11.7	12.2	11.9
LV	0.1	<0.1	<0.1	<0.1	0.43	0.37	0.25	0.18	5.1	4.8	3.7	2.7
LT	0.3	0.2	0.1	0.1	2.14	1.32	1.11	0.92	30	20.1	18.7	19.2
PL	0.1	0.3	0.2	0.2	0.75	1.81	0.89	0.87	16.1	40.2	20.9	20.8
SK	0.5	0.5	0.5	0.5	2.80	2.99	3.22	2.94	57.2	64.4	75.9	75.7
SI	0.5	0.5	0.4	0.3	2.25	2.23	1.85	1.65	96	99	84.9	76.6

Source: Eurostat ESSPROS Database (Eurostat 2008);

All eight countries spend relatively little on means-tested benefits designed to prevent exclusion, both in absolute and in relative terms. The highest spenders are the Slovak Republic, Slovenia and the Czech Republic, where around 0-4-0.5% of GDP is spent on this type of transfer. Lithuania and Poland are in a somewhat intermediary position, while the remaining countries, especially Latvia and Estonia spend very little resources, on average less than 1% of GDP. In a similar vein, reliance on public assistance within the wider welfare setup is very low. Sometimes less than 0.5% of the social expenditure budget goes towards financing means-tested assistance. The highest spenders devote around 2-3% of their social protection budget to finance this type of residual benefit. Not surprisingly, countries that are willing to spend more on social assistance programs are also keen on making these programs into important items within the overall social protection system[85].

In addition to the low level of expenditure, another striking finding emerging from Table 3.8 is the (sometimes very sharp) downward trend in spending. With the exception of Slovakia, all countries have reduced the amounts they spend on social assistance, both as a percentage of their GDP and as a share of the overall social expenditure. The drop is particularly steep in the

[85] Another explanation might be that various social programs compete for the same resources (although social assistance is financed through general taxation while insurance-based benefits are financed through contributions which are collected into a separate and independent fund). Thus, expenditure on one type of program squeezes resources for the remaining schemes;

Czech Republic, after the 2007 reform. While this result may reflect a declining need for this type of benefit as the economy grows and living standards rise, it could just as well be the result of social expenditure cuts, either explicitly, or implicitly, by failing to adjust upwards benefits and eligibility thresholds.

Finally, to illustrate the fact that varying country wealth levels allow for very different amounts of resources, the last column of Table 3.8 present social assistance expenditure as Purchasing Power Parities per inhabitant. Obviously, richer states dispose of significantly more financial sources to tap on, in order to finance social assistance schemes. What is indeed rather startling, there are huge discrepancies between some countries pointing out the very unequal levels of economic development present in Central and Eastern Europe, despite the shared communist experience.

Table 3.9. Break-down of expenditure on means-tested transfers in CEE (in PPP Euros per inhabitant)

	CZ	EE	HU	LV	LT	PL	SK	SI
Means-tested cash benefits								
2004	65.6	14.8	5.2	5	13.1	7.1	57.2	94.8
2005	64.3	13.6	6.5	4.4	10	29.7	64.4	99
2006	66.8	9.2	7	3.4	10.9	8.4	75.9	84.9
2007	21.3	8.5	5.3	2.4	10.6	8.5	75.7	76.6
Income support (means-tested)[86]								
2004	53.2	14.8	2.3	4.8	12.1	5.6	57.2	94.5
2005	50.2	13.6	3.5	4.2	8.7	6.1	64.4	98.6
2006	46.2	9.2	4.10	3.2	7.3	6.5	75.9	84.4
2007	19.6	8.5	2.8	2.3	8.1	6.9	75.7	76.1
Benefits in kind (means-tested)								
2004	0.6	NA	4.2	0.2	16.8	8.9	NA	1.2
2005	0.6	NA	5.2	0.4	10.1	10.5	NA	NA
2006	0.6	NA	5.3	0.3	7.8	12.5	NA	NA
2007	0.2	NA	6.6	0.3	8.6	12.3	NA	NA
Accommodation (means-tested)								
2004	NA	NA	NA	NA	NA	0.2	NA	1.2
2005	NA	NA	NA	NA	NA	0.2	NA	NA
2006	NA	NA	NA	NA	NA	0.2	NA	NA
2007	NA	NA	NA	NA	NA	0.2	NA	NA

Note: NA-data not available.
Source: Eurostat ESSPROSS Database (Eurostat 2008)

Because many types of benefits may be lumped together under the heading of social exclusion not elsewhere classified, Table 3.9 displays expenditure figures on some of the four subcategories, i.e. means tested-cash benefits, means-tested income support, means-tested

[86] Income support encompassed periodic cash payments to households with insufficient resources; means-tested cash benefits are a slightly wider category. In addition to income support, they include lump-sum, emergency and other forms of irregular cash support; see http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-RA-11-014/EN/KS-RA-11-014-EN.PDF.

benefits in kind and means-tested expenditure on accommodation. Unfortunately, for the latter two categories data is very scant, as figures are missing for most countries. In any case, comparing figures in Tables 3.8 and 3.9, it is easily observable that generally, means-tested assistance designed to combat social exclusion is awarded in cash, and that income support is its most important element. This is a pattern that holds for all countries, albeit noticeable variations exist. For example, means-tested income support is the only component of means-tested cash assistance in Estonia, while it amounts to only half on means-tested cash benefits expenditure in Hungary. In the latter case, the expenditure patterns suggest the existence of important categorical or tied means-tested support (for further evidence on this, see section IV.4 on benefits).

3.4.3 ENTITLEMENT: MEANS TESTS AND WORK TESTS

By definition, social assistance is awarded subsequent to a means test. The means test may consist of an income test, an asset test or both. All of the eight CEE countries have an income test as part of the process of determining entitlement. However, the types of revenue that are taken into consideration may differ. In effect, only two countries, namely Latvia and Poland do not disregard any type of income when establishing eligibility. All six remaining countries have some type of income exemptions. Generally speaking, incidental income, as well as some types of social transfers, notably those connected to disability and to children tends not be included in the income test (see Table 3.10). The Czech and Slovak Republic go farthest, by disregarding some portion of earnings, as well as several types of cash transfers together with non-regular income.

Table 3.10 Determining eligibility: means tests and work tests (2004-2008)

	Income test	Asset test	Work test	Unit of testing
CZ	Income from gainful activities and from capital; social security benefits and all recurrent income; non-regular income exempted; since 2005, 50% of the care benefit exempted; since 2007 30% of earnings and 20% of sickness/ unemployment benefits disregarded	Not until 2007; after 2007 property considered in establishing eligibility	Registration with the labour office and willingness to work; should actively search for work; since 2005-different definition of 'suitable' work applicable to those unemployed for 12+ months; since 2007-benefit reduced to subsistence benefit if not enough work effort	Household/ Single person
EE	Taxable income, pensions, social	No	Registration with the labour office.	Household; parents,

	Income test	Asset test	Work test	Unit of testing
	security benefits; Not included in the test: lump sum payment, benefits for the disabled + child allowances and supplementary benefit (since 2003), housing allowances within limits, allowances for families with 3+ children; since 2006- student loans, transportation benefit & accommodation benefit for the unemployed also exempted		Did not refuse repeatedly a job offer. Did not refuse to participate in a rehabilitation program. Sanctions at the discretion of the local authority. Since 2005-case management.	grandparents and other persons living in the same household may be required to extend payments before public support kicks in
HU	Array of categorical benefits, many established locally; some allowances connected to disability are usually disregarded; housing allowance disregarded (until 2006) benefit is only cummulable with up to 90 days of temporary work; no benefit payable for the days worked; since 2006- after taking up work, benefit paid for an additional 3 months at 50% rate and another 3 months at 25% rate.	Usually, yes but eligibility conditions vary with the local government	From 1999-income replacement for the unemployed linked to participation in public work programs (workfare)	Usually household (more discretionary)
LV	All types of income considered. Partial payment of a benefit for 3 months after taking up work (at 75%, 50% and 25% rate)	Yes, but savings up to 200LV and property up to 3000LV allowed.	Registration with the labour office. Must accept suitable work or training. Must co-operate and give full information and accept rehabilitation	Immediate family/ household members; must claim alimony or support from the absent parent; resources of the

	Income test	Asset test	Work test	Unit of testing
			In case of refusal, household benefit is reduced by the part of the person who has refused; since 2005-benefit may not be received for more than 9 months/ year	extended family may be taken into consideration
LT	All income. Exception: extraordinary grants, special allowances and alimonies	Must not have a farm larger than 3.5 ha. Must not own an establishment;	Registration with the labour office. Must accept job offers, participation in training or public works. Refusal may lead to suspension or withdrawal of the benefit; Work test does not apply if taking care of a child<3 or three children<16 or of nursing a disabled person	Individual or Family
PL	All income considered.	No explicit test but wide discretion of local authorities to establish whether a person is 'needy'	Registration with the labour office. Availability for work, training or socio-professional integration Did not refuse job unjustifiably No work-test for care-giver of a handicapped child	Family/ single person
SK	All income. Exception: birth grants and death grants; in 2004-25% of earnings and 25% of old age benefit, (since 2005)-25% of maternity benefit, child benefits, scholarships, some benefits for the unemployed & incidental income up	No	Registration at the labour office and willingness to work, train, retrain and accept community work to receive the higher amount (SA for objective reasons/ activation allowance)m	Household=applicant+ spouse + dependent children

	Income test	Asset test	Work test	Unit of testing
	to 2* subsistence minimum, community help disregarded			
SI	Earnings, inheritances, gifts; 6 exceptions: child benefits, scholarships, alimony, benefits for the disabled and benefits for assistance and care-giving;	Yes, but assets valued at maximum 24 minimum wages allowed. Benefit may be reduced if social worker considers assets are enough for maintaining minimum living standards	Must sign and observe a contract with the Centre for Social Work. No entitlement if voluntarily unemployed. Must accept activation before receiving benefit. 2006-Tightening of job search requirements	Family (spouse/cohabitant children and parents and grandchildren if in the care of the applicant); obligations extend to children, stepparents and parents

Source: ((GVG) 2003; (GVG) 2003; (GVG) 2003); MISSCEECII Tables, MISSOC Tables and MISSCEEO Tables;

Until very recently, no CEE country allowed for earnings disregards either when establishing the initial eligibility status or when maintaining it. However, following developments taking place both in Western Europe (Ditch 1999; Heikkilä and Keskitalo 2001) and especially in the US, earnings disregards have been introduced in the Czech and Slovak Republics whereas gradual benefit tapers are present in the Hungarian and the Latvian schemes. Such measures have been used extensively in the American context, but also in large European countries such as Germany or France as a way to diminish the financial disincentives associated with moving from benefit receipt into employment. Both earnings disregards and benefit taper-off zones have the advantage of temporarily lowering the withdrawal rate when earnings increase. However, the latter do discriminate between low-income working households who have not entered the program and those who have. As a result of their earnings disregards, the Czech and Slovak Republics have an effective marginal tax rate of 70% and 75% respectively. In the other two countries, the effective marginal tax rate is lowered only temporarily-for three months in Latvia and for six in Hungary. After the grace period, the effective marginal tax rate reaches 100%, irrespective of actual earnings. In the remaining four countries, the immediate withdrawal of one euro of benefit for each euro of earnings, translates into an effective marginal tax rate of 100% immediately after taking up employment.

In addition to the income test, another way of gauging a household's resources is the use of an asset test. Carrying out asset tests may bring two advantages. On the one hand, income is much more fluctuating than wealth. As a result, an asset test is better suited to capture the long-

term material well-being of a household[87]. On the other hand, in economies where a large share of the activity takes place underground, asset tests may be a much more reliable tool than income tests. Despite their enhanced stability and reliability, asset test also incorporate a major drawback. They require future recipients to "spend away into poverty" in order to become eligible for benefits. Put differently, they require persons with low incomes to first consume their wealth before becoming eligible for state support. This prerequisite may have negative consequences as it entails a deterioration of the individual's material situation before state intervention is allowed for. More generally, the presence of asset test has the potential to discourage saving among the low income household[88]. Furthermore, wealth constitutes a resource in more ways than just financially. For example, selling a house and moving out of a neighbourhood may disrupt a person's social network as well as undermine her self-esteem and sense of efficacy. It follows that despite its higher accuracy in evaluating resources, asset testing may entail exclusionary processes.

Before discussing country asset tests in more detail, a caveat is in order. Unlike income tests, there is substantial uncertainty surrounding asset tests. This is partly due to inaccurate and fuzzy data and partly due to the fact that asset tests may be ill-defined in the national legislation itself. Certainly, asset-tests seem to be more amenable to discretionary assessment, partly due to the difficulty in specifying the treatment of many types of different assets that may serve different purposes. This is a case in point particularly for the CEE region, where experience with administrative targeting is lacking and where instruments for assigning value to assets are underdeveloped. Thus, all asset-test related data should be interpreted with caution.

Of the eight CEE countries present in the study, only two (Estonia and the Slovak Republic) do not clearly define the existence of an asset testing as part of their means test (See Table 3.10). Additionally, an asset test has been explicitly introduced in the Czech Republic only in 2007. Of the remaining five countries, only Slovenia has very clear asset disregards. Latvia and Lithuania also exempt some possessions, although it is less clear how the implementation of the asset test is carried out in practice how the definition of the asset test changed in time. Finally, Hungary and Poland do not explicitly stipulate any asset disregards, although in practice, it is likely that consumer durables or homes are not entirely subject to the asset test.

The murky nature of asset test is not stemming from vague legislation only. Even when asset-tests are explicitly called for in legislation, their enforcement cannot be taken for granted. For example, in a study of European minimum income schemes, Guibentif and Bouget (1997) conclude that the application of asset tests is seldom consistent within a country.

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[87] On the advantages of using wealth instead of income to assess poverty, see Shapiro, T. M. (2001). The Importance of Assets. Assets for the Poor: The Benefits of Spreading Asset Ownership. T. M. Shapiro and E. N. Wolff. New York, Russell Sage Foundation**:** 11-33, Sherraden, M. (2001). Asset-Building Policy and Programs for the Poor. Assets for the Poor: The Benefits of Spreading Asset Ownership. T. M. Shapiro and E. N. Wolff. New York, Russell Sage Foundation**:** 302-333, Carter, M. R. and C. B. Barrett (2006). "The Economics of Poverty Traps and Persistent Poverty: An Asset-Based Approach." Journal of Development Studies **42**(2): 178-199.

[88] See Chapter 6 for a detailed discussion and analysis of this topic.

On top of passing a means test, potential clients may also have to demonstrate that their material deprivation is not due to a personal choice. In practice, this amounts to passing a work test. Albeit not new as a policy instrument, work tests accompanied by significant sanctions have gained increasing attention. In Western Europe, they have figured prominently in the activation discourse and in initiatives aimed at reforming unemployment insurance and/ or social assistance, so as to "make work pay". There is very little empirical evidence showing the work disincentives of social assistance in Central and Eastern Europe. Early studies have focused on calculating replacement rates relative to the average or the minimum wage (Boeri and Edwards 1998; Ham, Svejnar et al. 1998). Yet, comprehensive longitudinal studies of unemployment duration of recipients and non-recipients are lacking. Still, Western arguments about program driven unemployment traps have often been taken over, especially in light of high replacement rates relative to minimum wages. As a result, work tests seem to have gradually gained in importance and visibility[89] (MISSOC 2006; MISSOC 2007; MISSOC 2008). Unlike in Western Europe, this development has not taken place in a context of rising welfare rolls and mounting expenditure. On the contrary, work-tests have gained prominence in an era of sustained economic growth and falling unemployment rates[90].

Each of the eight social assistance programs includes a work test for the able bodied, albeit some exceptions are be made for parents of small children or for single parents lacking child-rearing support[91]. In its lightest form, the work test consists of registration with the employment office. Indeed, this prerequisite is present as an eligibility condition in all eight schemes. In addition to formal registration as an unemployed, recipient able-bodied adults may have to submit to several "activation" measures. These may either emphasize increasing employability and opportunity, such as taking up training and requalification, undergoing therapy or addressing health and personal issues or they may take the form of increased pressure and control, for instance, the obligation to take up any available job offer, providing evidence of job search or even the compulsion to participate in public or community works. This last condition, willingness to participate in public works, may be considered the most stringent and the possibly the most stigmatizing (workfare). Two countries, Hungary and Lithuania, link eligibility for social assistance benefits to availability to participate in public works (See Table 3.10). Sanctions in case of failure to satisfy work/job search conditions also vary. At one extreme, the entire household benefit may be suspended or withdrawn in case one member's job search efforts are deemed unsatisfactory in Lithuania, Estonia or Hungary. At the other end, a minimum benefit is awarded

[89] This development may have been aided by policy reports of the EU that emphasized work disincentives see REPORTS;

[90] Indeed, during early transition when budget considerations were looming large, spending reduction has usually been achieved by reducing benefits or by making benefit receipt conditional of budgetary conditions, rather than by using work tests.

[91] It should be noted that some countries, while not exempting certain categories for work-tests in social assistance programs, actually make available categorical benefits (such as care-giver benefits) that do not have work or job search requirements.

to needy households irrespective of the work-test in the Czech and Slovak Republics[92]. In between, Latvia only suspends the part of the benefit that is awarded to the person deemed as failing the work test. Finally, Slovenia does not make social assistance available to the voluntarily unemployed.

Just as in the case of asset tests, the application of the work test may be highly variable and dependent on the social worker's discretion. For example, even if refusal of a job is stipulated to trigger cuts or suspension of the benefit, such a rule may be ignored by the social workers charged with its application[93].

Lastly, generally speaking, all eight countries base the means-test and hence the entitlement on the resources of the household or the nuclear family. In Latvia, carers must claim alimony from the absent parent before becoming eligible to receive the benefit. Resources of the extended family may be considered in Estonia, Latvia and Slovenia. However, maintenance obligations are not clearly defined, and it is unclear to what extent these claims are actually enforced or even enforceable[94].

To summarize, three differentiation criteria may be observed when analysing entitlement rules in Central and Eastern Europe. While differences in the application of the income test are more straightforward, asset and work tests are usually only vaguely defined and, in all likelihood, inconsistently applied. Vague, imprecise or contradictory eligibility criteria are not unique to CEE countries. On the contrary, such features have emerged in the study of Western social assistance schemes, where they have been blamed for high leakage rates (Guibentif and Bouget 1997).

3.4.4 BENEFITS

The amount of the benefit encompasses the quantity of resources that the state is willing to provide to those who cannot support themselves. The principle on which the determination of this amount rests and the indexation mechanism incorporated in the scheme play an important role in determining the size of available aid. More specifically, countries that determine the benefit level in a purely administrative way, instead of basing it on a minimum basket of goods and services, tend to have lower benefit levels. Similarly, social assistance programs that lack a clear indexation mechanism have lower benefit levels as well. Administrative discretion tends to be heavily influenced by budgetary considerations. Both lack of indexation and discretionary setting of the benefits are used as savings generator devices. As a result, fewer

[92] If the test is passed, a higher amount is awarded.

[93] Disregard or lax enforcement of this rule has been found in a study of the German social assistance Guibentif, P. and D. Bouget (1997). Minimum Income Policies in the European Union. Lisbon, União das Mutualidades Portuguesas.

[94] Such obligations exist in Belgium, France, Luxembourg and Germany, although it is not always clear to what extent they are actually implemented Lodemel, I. and B. Schulte (1992). Social Assistance: A Part of Social Security or the Poor Law in New Disguise? Reforms in Central and Eastern Europe. Beveridge 50 years after. Y. E. I. o. S. Security. Leuven, Acco Leuven/ Amersfoort: 515-543.

resources are redistributed through this type of programs (for a description of indexation, principles of determination and benefit levels see Table 3.11).

Table 3.11Benefit level and determination in social assistance programs in the early 2000s

Country	Determination of minimum amount	Indexation	Monthly benefit amounts for single person	Relation between amounts (equivalence scales)
CZ	Minimum basket of goods	Regular indexation, as soon as the cost of living increases by 5%	4100 CZK (160,23 EUR) 27,3%AW	Single adult=1 Child<6= 0.73 Child 6-10=0.81 Child 10-15=0.96 Child 15-26=1.06 Household amounts: 1 person=1 2 persons=1,3 3/4 persons=1,6 5+ persons=1,8 Since 2007-new rules: Single adult=1.09 First adult=1 Other adult=0.9 Child <6=0.55 Child 6-15=0.68 Child 15-26=0.78 + housing costs
EE	Set by Parliament	No regular indexation; at the discretion of the government	500 EEK (32 EUR) 8,1%AW	First person=1 Every subsequent=0.8
HU	Set by the local authority/ min pension	Regular social benefit-linked to the min pension which is indexed annually Other benefits-indexation at the discretion of local authorities	Regular social benefit: 14070 HUF (57,5 EUR) 11,5%AW Other benefits: determined by local authorities	Regular social benefit: per capita (until 2006) Since 2006: First person=1 Every subsequent adult=0.9 Child (first 2)=0.8 Child (3rd +)=0.7 Single parent bonus=0.2 Disability bonus=0.2
LV	Set by local authority until 2003; 2003-set by central government	No regular indexation; at the discretion of the government	21 LVL (37,5 EUR) 13%AW	Per capita
LT	Minimum basket of goods	No regular indexation; at the discretion of the government	121,5 Litas (38 EUR) 11,9%AW	Per capita

Country	Determination of minimum amount	Indexation	Monthly benefit amounts for single person	Relation between amounts (equivalence scales)
PL	% of min pension	Price indexed since 1996	447 PLN (126,27 EUR) 21,3%	First person= 1(1,1-single person) Subsequent adult=0.7 Child (<15)=0.5
SK	Set by the Parliament, but based on minimum basket of goods	Regular price indexation at least once a year/ as soon as cost of living increases by 10%	3490 SKK (1895 SKK if subjective reasons) (83 EUR) 25,8%AW	First adult=1 Subsequent adult= 0.7 Child= 0.5
SI	Set by the government	Regular price indexation- 1 per year	37934 SIT (175 EUR) 16,1%AW	First person=1 Subsequent adult= 0.7 Child=0.3

Note: AW=average wage; taken from ILO Laborstat database; figures for 2002;
Source:((GVG) 2003; (GVG) 2003; (GVG) 2003); MISSCEECII Tables and MISSCEEO Tables;

Estonia, Latvia and Slovenia establish the basic benefit rates administratively. The remaining countries, at least theoretically, rely on calculations of a minimum basket of goods when setting the basic rate. The Baltic States are the only ones not to have implemented to date a regular mechanism of updating benefits with inflation. Local, discretionary benefits are also raised in an ad-hoc manner. In fact, inflation erosion constitutes a significant way of cutting benefits. For example, in Estonia, the basic rate has not been raised at all between 1996 and 2006, resulting in one of the most meagre benefits in the region, before being slightly raised in 2006.

Just by taking a quick look it is easy to realize that social assistance benefits are very small in 2002, insignificant in some cases. Although amounts in purchasing power parities would have been somewhat higher than those in Euro, it is clear that transfers are meagre by any standard. Looking at benefits for single persons, the most generous are by far Slovenia and the Czech Republic (see Table 3.11). Poland and Slovakia also disburse somewhat higher benefits. The rest of the countries offer only very limited resources through their social assistance schemes, usually around or below 50 Euros for a single person. Benefits may become more generous as the family includes a higher number of children. Yet, the amounts of the benefit are obviously well below subsistence level. More recent data (for the 2004-2007 period) on benefit levels point towards similar results (Table 3.12). The largest transfers are registered in Slovenia, the Czech and Slovak Republics, whereas benefit levels are lowest in the three Baltic states.

Social assistance transfers rose in all eight countries between 2004 and 2007. However, the growth pattern has been unequal. Whereas countries with regular indexation in place (and larger benefits, as a rule) experience slow but steady growth, benefit increases have been much more erratic, but also more abrupt in the Baltic States and, to a lesser extent in Poland.

Finally, it is worth noting that despite the fact that broad country clusters on benefit generosity hold regardless of which type of household is concerned, finer grained comparisons of countries in the same group are not robust to a change in household characteristics. This is due to the fact that very different equivalence scales may be used (see Table 3.11 and Table 3.12). In fact, the country with the most generous single person benefit, namely Slovenia, also has the most conservative equivalence scales. Pre-2006 Hungary, as well as Lithuania and Latvia, all operate per capita rules in determining the household benefit, thus giving all household members the same weight. Such a system disregards any economies of scale resulting from living in the same household and advantages large families over single persons. The Czech Republic, Hungary after 2006, Estonia and the Slovak Republic all give children consumption weights very similar to those of the adults, thereby making their social assistance programs relatively more attractive to families with many children. On the other hand, three countries, i.e. Latvia, Poland and Hungary since 2007 operate family caps. Poland is relatively unique in operating a very low cap that applies to small and large families alike.

Table 3.12: Monthly benefit amounts in CEE between 2004 and 2007(in Euros)*

	2004	2005	2006	2007
CZ	Single/first person-71+ 55 Other adults-71+71(2 persons) Child-58-75 depending on age+ 88/91 (3-4 hh members) Single parent-child part of benefit increased to 61-79 Social allowance paid to care-givers	Single/first person-78+64 Other adult-78+83(2 persons) Child-57-82 depending on age +83-116 (3 to 5 persons) Single parent-child part of benefit increased to 60-86; special care allowance if child<4(7 if handicapped) Social allowance paid to care-givers	Single/first person-83+70 Other adult-83+91(2 persons) Child-60-87 depending on age +112-121 (3-5 persons) Single parent-child part of benefit increased 63-90 Social allowance paid to low-income care-takers	Single person-114 First adult-104 Other adult-94 Child-58-92 depending on age Subsistence min-73 Social allowance paid to low-income families with children Single parent-social allowance for care purposes increased 1.17 times
EE	First/Single adult-32 Other adults-26 Child-26 Discretionary additional benefits granted by the municipalities	Firs/single adult-48 Other adult-38 Child-38 Special benefit for survivors of a non-contributory benefit recipient Discretionary allowances granted by municipalities	First/single adult-48 Other adult-38 Child-38 Single parent bonus-13 Special benefit for survivors of a non-contributory benefit recipients Discretionary allowances granted by municipalities	First/single adult-58 Other adult-46 Child-46 Single parent bonus-13 Special benefit for survivors of a non-contributory benefit recipients Discretionary allowances granted by municipalities
HU	Single person-71 Other adult-71 Child-71 Additional benefits: child-care allowance, benefit for families raising 3+ children; discretionary benefits granted by the municipalities	Single person-80 Other adult-80 Child-80 Single parent-special care benefit, child care allowance + benefit for 3+ children Additional benefits: child protection benefit & irregular child benefit	Single person-82 Other adult-82 Child-82 Single parent-child-care allowance and extra benefit if 3+ children	Single person=91 Other adult=82 Child-64-73, depending on birth order Single parent bonus-16 Disability bonus-16 Maximum family benefit-212 Single parent-special care allowance + extra benefit if 3+

	2004	2005	2006	2007
		Many specific benefits: temporary, debt-management, transportation, funeral, home renting, + other emergency and support schemes organised by municipalities		children
LV	First/single adult-28 Other adults-28 Child-28 Max. Benefit=161 Discretionary additional benefits granted by the municipalities	First/single person-30 Other adult-30 Child-30 Max. Benefit= 151 Discretionary benefits granted by the municipalities	First/single adult-34 Other adult-34 Child-34 Max. Benefit-194 Discretionary benefits granted by municipalities	First/single person-39 Other adult-39 Child-39 Max benefit-193 Extra benefit for raising a child<1 or more children<2 Discretionary benefits granted by municipalities
LT	First/Single adult-35 Other adult-35 Child- 35	First/single adult-39 Other adult-39 Child-39	First/single adult-40 Other adult-40 Child-40	First/single person-53 Other adult-53 Child-53
PL	Single person-66 Max. Family Benefit-87 Emergency one-time benefits awarded regardless of income	Single person-78 Max family benefit-103 Special Needs Allowance for one-off purchases if demonstrable need	Single person-108 Max family benefit-108 Special Needs Allowance for one-off purchases if demonstrable need	Single person-109 Max family benefit-109 Special Needs Allowance for one-off purchases if demonstrable need
SK	First/single person-104 Other adult-73 Child-47 Special benefits for the disabled	Single/first adult-118 Other adult-83 Child-54 Subsistence minimum-40 (for single person) Additional benefits: lump sum for certain types of expenses up to 3*subsistence min Health-care allowance, housing	Single/first adult-125 Other adult-87 Child-57 Subsistence minimum-41 (for singles) Single parent-extra allowance if child<31 weeks, subsidies for employment & care allowance Additional benefits: for	Single/first adult-145 Other adult-101 Child- 66 Subsistence min-48 (for singles) Single parent-higher wage subsidies if hiring single parent with child<10 or 3+ children Additional benefit-for pregnant

	2004	2005	2006	2007
		allowance, disability/care-giver allowance	pregnant women, lump sum for certain expenses up to 3*subsistence min, health-care, commuting to work, housing allowance, motivational allowance for children of low-income families, care allowance if child <3 (6 if chronically ill)	women, for disabled persons, health-care allowance, housing allowance, transport to work, care allowance if caring for child<31 weeks; extra benefit if raising child<1
SI	First/single adult-191 Other adult-134 Child-57E Single parent bonus-57 Extra benefits for the disabled	First/single adult- 196 Other adult-137 Child-59E Single parent bonus-59 Extra benefits for the disabled	First/single adult-196 Other adult- 137 Child-59 Single parent bonus-59 Extra benefits for the disabled	First/single adult-205.57 Other adult-143.90 Child- 61.67 Single parent bonus-61.67 Extra benefits for the disabled

Note: Euro conversions are approximate; they use the exchange rate of the year for which the benefit amount is shown; benefit amounts relate to May 2004; January 2005; January 2006 and January 2007;

Source: MISSOC Database (Mutual Information System on Social Protection on EU Member States and the EEA (MISSOC) 2004; European Commission 2005; European Commission 2006; European Commission 2007; European Commission 2010), OECD (OECD 2007; OECD 2007; OECD 2007; OECD 2007; OECD 2007; OECD 2007; OECD 2007; OECD 2007)

Of the eight countries, only Hungary imposed a so-called wage rule [95] in 2007. Its social assistance scheme effectively limits the maximum amount a household might receive to the existing minimum wage. In the remaining countries however, in some cases, large families may expect to receive a benefit larger than the minimum wage. Such a possibility is all the more likely if the minimum wage is low, as is the case in the Baltic States. Basic rates may be supplemented by additional one-time or regular transfers. These payments are however usually made on a discretionary basis and, as such, are difficult to include in a cross-national study.

In addition to the standard benefits, many social assistance programs include a large array of "special" benefits that may be awarded to certain categories that are viewed as particularly deserving or particularly in need, such as the disabled (when benefits are awarded to them under the social assistance program) or single parents. The case of single parents is particularly interesting. This type of household is much more vulnerable to poverty due to the difficulties it has with simultaneously handling work and care responsibilities. As a result, more generous benefits for single parents may be justified on this ground. On the other hand, increasing out-of-work benefits for single parents may simply encourage then to exit the labour force, thereby reinforcing the precariousness of their situation. With the exception of Latvia, Lithuania and Poland, social assistance schemes award a single parent "bonus". The benefit increase is relatively small (compared to what the received amount would have been in its absence) in the Czech and Slovak Republics, but substantial (in relative terms) in Slovenia, Hungary and Estonia. Finally, only the Slovak Republic has a provision aiming to help single parents return to wage employment.

Another type of "extra" benefits present in public assistance, are disbursements tied to particular expenditures (such as transport, health-care, special purchases etc.)[96]. Hungary and the Slovak Republic possess the largest number of such additional benefits relating to specific types of consumption. Lastly, benefits may be topped up entirely discretionarily by local or "emergency" payments. Arguably, such discretionary payments may be of great importance to the household receiving them. Regrettably however, their discretionary nature also makes them hardly amenable to study. Estonia, Latvia and Hungary all explicitly allow local municipalities to set up their own support systems to top up nationally defined minimum income payments.

Yet, despite the relative generosity of the equivalence scales, of the presence of indexation and, in some cases, of the delineation of the benefit based on a basket of goods, the most striking feature of CEE social assistance transfers remains the very low amount of the basic rates.

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[95] Wage rules have been introduced as a result of concerns with making work pay; in practice, they mean that a minimum gap should be maintained between the disbursed benefit and the wage a low-skilled worker can expect to earn; an example of such a rule being introduced is Germany Ditch, J., J. Bradshaw, et al. (1997). Comparative Social Assistance. Localisation and Discretion. Aldershot, Ashgate.

[96] A special type of tied benefit is represented by housing allowances; they will be analyzed in more detailed in section VI.6.

3.4.5 CENTRAL VERSUS. LOCAL ADMINISTRATION

The organization of social assistance programs can be located on a central-local continuum.

The exact mix of central and local responsibilities can vary enormously. The division of responsibilities between central and local authorities concerns at least three axes, namely implementation, financing and decision-making. In principle, these three areas are independent of each other. In practice, usually they are linked.

On a very general level, Ditch et al. distinguish between three general models of devolving responsibilities to the lower levels of government, namely federalism, de-concentration[97] and decentralization (Ditch, Bradshaw et al. 1997). Each of the three models involves a different organization of delivery, financing and decision-making. Since all of the eight CEE countries included in the analysis are national unitary states, the federal archetype is not relevant in this context. De-concentration and decentralization based models are best distinguished on the implementation axis. On the grounds that local governments are better able to establish who the needy are, a majority of CEE countries have devolved the responsibility for the daily running of the program to municipalities, thus opting for decentralization. In fact, CEE countries have largely followed a wider penchant for decentralization promoted both by international organizations and by experts, as well as by trends in on-going reforms in Western Europe (Guibentif and Bouget 1997). Only three countries, i.e. the Poland, Slovakia and Slovenia, have retained a system where the local branches of the central administration are responsible for delivering benefits (see Table 3.13). The implementation system in Czech Republic, while theoretically relying on municipalities, in practice resembles the de-concentrated model.

Table 3.13 Centralization of social assistance programs in CEE countries

Country	Implementation	Financing	Decision making
CZ	District labour offices & Designated local municipalities on behalf of the state; one-off benefit administered by municipalities	Central budget	Central
EE	Local government	Central budget for the basic amount; local budget for supplementary benefits	Minimum amount set nationally; local authorities may grant additional benefits of relax eligibility conditions
HU	Local government	Until 2004- 75% central	Regular social benefit-

[97] Deconcentration is a weaker form of decentralization whereby administration is carried out by the local branches of a central institution; it thus involves a fair amount of centralization.

Country	Implementation	Financing	Decision making
		25% local Since 2004- 90% central and 10% local (100% central for the homeless)	amount set nationally Other SA benefits- usually set locally
LV	Local government	Mainly the local budget	Since 2003, the basic amount is set nationally; local authorities may grant additional benefits at their discretion
LT	Local government	Central/state budget	Central. Municipalities grant additional services.
PL	Local and regional offices of the Ministry of Economy, Labour and Social Policy & local government	State budget 20%; local budget- 80%	Central. However, social workers have wide discretion in establishing eligibility.
SK	Local branches of central administration (Ministry of Interior)	Until 2004- Central budget; Since 2004 – Central budget for the first 24 months of receipt and municipalities thereafter	Central
SI	Local branches of central agency (Centre for Social Work)	Central budget	Central

Note: When not indicated otherwise, information refers to the 2004-2007 period.
Source: ((GVG) 2003; (GVG) 2003; (GVG) 2003); MISSCEECII Tables and MISSCEEO Tables;(OECD 2007; European Commission 2010); (Levy and Morawski 2008).

More important than implementation are, however, financing and decision-making. Decentralization of these two functions tends to create strong regional imbalances in the treatment the clients get. More often than not, decentralization of financing and decision-making is regressive, from a redistributive point of view, as better-off clients living in richer districts receive more comprehensive support than the neediest living in poor municipalities.

In practice, no country assigns local authorities total discretion in establishing the basic amount of the benefit. National level regulations regarding the minimum benefit amount have been established in all eight countries[98] (see Table 3.13). Regional variations may be introduced though through the granting of supplemental benefits. The three Baltic States explicitly provide leeway for local authorities to grant additional transfers on condition they are entirely financed from local budgets. Consequently, richer municipalities are often in a position of providing more generous benefits to their residents than poorer ones, where, theoretically, such additional benefits would be more necessary. Similarly, a plethora of locally set benefits for the needy is

[98] This has not always been the case; Hungary until 1997 and Latvia until 2003 did not have a nationally set minimum income guarantee that encompassed the unemployed.

present in Hungary. Local authorities have complete authority over shaping both entitlement and the support awarded under these programs, although some of are partially funded from the state budget. Finally, local public assistance support is also noteworthy in the Slovak Republic.

Finally, a very important aspect of the central-local balance of responsibilities is the issue of financing. Central governments often opt for decentralization in an attempt to transfer some of the fiscal responsibility from the centre towards the municipalities. Yet, in the absence of an equalization mechanism co-ordinated from the centre, both equity and practical concerns arise. In the most extreme case, poorer localities may find themselves unable to pay out the mandated basic rates. Given these drawbacks, it is not surprising to find that a majority of countries finances the basic rate of the social assistance benefit from the state budget[99]. Of the eight countries, only Latvia and Poland rely mainly on local budget financing to pay for public assistance benefits. However, local finances are also strongly consequential for the functioning of the program in the remaining two Baltic States, and Hungary. Hungary in particularly has a large part of its support system for the needy run on a local basis and using local funds. The Slovak Republic is peculiar in that it funds centrally only the first 24 months of benefits, passing on the funding responsibility to municipalities thereafter. In practice, this means that funding for. long-term recipients and the (very) long-term unemployed, is made dependent on local financial circumstances. These recipients are often the most vulnerable (unemployable, with social problems such as addiction, homelessness etc.), and the most in need of support. Smaller and poorer municipalities may lack the resources to effectively help them.

To sum up, most countries in the region administer their public assistance in a relatively centralized way. Still, clear differences emerge between countries such as Slovenia that rely almost exclusively on a central apparatus and Latvia or Hungary who put greater emphasis on the role of local authorities. At this point, it should be noted that some type of convergence in centralization patterns does seem to emerge, possibly reflecting a consensus for a middle ground. Thus, the countries that have had the most decentralized systems, i.e. Latvia and Hungary took steps to introduce centralizing features. Conversely, some countries that have started out with very centralized systems, namely the Czech and Slovak Republics, have given municipalities greater leeway in administering public assistance benefits.

3.4.6 Additional Services: Housing and Health-care

In addition to cash transfers, social assistance recipients are often entitled to additional support relating to particular types of expenses. Two, namely housing and health-care are reviewed in greater detail in this subsection. Aside from being areas of particular importance to

[99] In fact, there earlier on, local budgets were much more relied on to pay for benefits (for example in Hungary or Poland); this is still the case in other countries in the region such as Romania; the central government always performed some kind of equalization; however, since funds were not earmarked but block-granted, municipalities themselves established funding priorities; social assistance programs rarely find themselves on the top of the list.

human welfare, the two are worthy of special attention due to the large amount of resources a household consumes to satisfy its health and shelter needs. Paying for accommodation is often the single largest expenditure in a household's budget. Thus, housing benefits (or lack of thereof) play a crucial role in providing subsistence resources. Similarly, health-care services are usually expensive. Although existing legislation makes access to health-services relatively unproblematic for the majority of the population in all eight countries, social assistance recipients may face special barriers. In particular, where the health system is organized on insurance (rather than residency) principles, unemployed social assistance recipients do not pay health insurance contributions. Thus, unless special arrangements are made, they are excluded from health-care coverage.

Table 3.14 Social assistance associated rights: housing and health-care

Country	Housing	Health-care
CZ	Housing allowance: income test only; threshold higher than for SA (1.6*min income for the family); differential amount depending on the family income and on the subsistence minimum; actual housing costs irrelevant	Health care is free of charge at the point of delivery for all residents.
EE	No special housing benefit; some housing expenses deductible from assessable income before establishing eligibility	Only emergency care for uninsured persons is covered from the central budget. For other services, providers may require a letter of guarantee from the municipality.
HU	Home maintenance allowance: local benefit paid by municipalities; limit on the size and quality of the home + no income must be derived from it; guidelines on entitlement: if housing costs >20% household income/ income per family member<150% old age pension; local municipalities set the amount of the benefit, but it cannot e lower then a certain limit (2500HUF in 2004; non-SA recipients may qualify	Health care contributions are paid by the state on behalf of SA recipients.
LV	Separate municipality benefit; it is not mandatory for local authorities to establish/pay this benefit; financing entirely local, so benefit depends on available resources	Tax financed health-care system; access based on residency, not contributions
LT	No housing benefit, but special benefit reimbursing the costs of heating and water. Income test + size of housing test to qualify; non SA recipients may qualify	Health care contributions are paid by the state on behalf of SA recipients.

Country	Housing	Health-care
PL	No special support. Local municipalities are charged with running shelters for the homeless	Health care contributions are by the state on behalf of SA recipients.
SK	Housing allowance: fix sum payable only to social assistance recipients	Health care services are normally free of charge. Small health-care allowance granted for SA recipients.
SI	Housing allowance: maximum 25% of the basic SA rate if the recipient is paying rent; benefit cannot exceed the cost of rental in social housing units; only for SA recipients	Health-care contributions are paid for by the state on behalf of SA recipients.

Note: Information refers to the 2004-2007 period
Source: (European Commission 2005; European Commission 2006; European Commission 2007; European Commission 2010)

A detailed outline of both housing and health-care benefits applicable to social assistance recipients are presented in Table 3.14. Of the eight countries, only Estonia fails to cover in some way health-care services for social assistance recipients. The other seven CEE states make provisions to insure public assistance clients have access to health-care, either based on their residence or based on contributions paid on their behalf by the state. In fact, even in Estonia, social assistance recipients are not excluded outright but face extra barriers that put them at risk of going without needed health care services. In any case, there is precious little variation in health-care access[100], perhaps reflecting a norm that nobody should have to live with unmet medical needs[101].

Providing for housing needs is much less uniform in the region. Poland, Estonia, and Lithuania have no special provisions to provide social assistance clients with accommodation. Latvia relies entirely on locally defined, managed and financed provision, which is likely to mean that many of the needy go without help in this area. Even among the four countries that did implement housing benefit, the Czech Republic, Hungary, the Slovak Republic and Slovenia, adequacy in relation to housing costs is often deficient. Most strikingly, no country has made provisions to cover real housing costs[102]. In fact, in all four countries however, benefits are relatively low, varying between 10-60 Euros per month. Thus, existing housing benefits cannot be said to solve the housing problems of the poor. They might however help alleviate them. In the Czech Republic and in Hungary, housing benefits are available to a larger section of the population compared to minimum income support. On the contrary, in the Slovak Republic and Slovenia benefits are meant entirely for public assistance clients.

In short, health-care needs are provided for in all countries except Estonia, whereas housing provision is much scantier. Yet, housing terms may amount to a substantial amount

[100] Health care costs of social assistance recipients are not included in social assistance expenditure data.
[101] The actual operation of the health systems, and whether in practice they actually deliver quality care is an entirely different issue.
[102] This is the case for example in Sweden or in Germany.

compared to the basic benefit rate, thus potentially making an important contribution to the recipient households' welfare. Generally, countries with low levels of income support do not provide for special housing benefits. This is the case of the three Baltic States, as well as Poland. On the contrary, countries with more generous minimum income transfers, such as Slovenia, the Czech and Slovak Republics, and to a lesser extent Hungary, also make available extra support for housing needs. Therefore, housing benefits do not compensate for any basic benefit inadequacies, on the contrary. The cross-country difference in benefit generosity is larger once housing benefits are taken into account.

3.5 CONCLUSION

Means-tested public assistance schemes have been put in place throughout Central and East European countries in the first half of the 1990's. Following their inauguration, they have been subject to numerous changes and adaptations until finally stabilizing around the minimum guaranteed income model. The lack of a well-established and developed means-tested program under socialism probably both encouraged policy experimentation and fluidity and relegated this type of benefit to a minor position within the wider social protection setup. In all eight countries, expenditure on social assistance benefits is very low while benefit amounts are often tiny in comparison with needs.

Means-test implementation is generally a demanding administrative task, all the more so when it falls upon a bureaucratic apparatus unaccustomed to such a procedure. A fairly complex three pronged entitlement test relying on income, assets and availability for work governs eligibility determination in all eight countries. Initially simple in design, programs have gradually incorporated more complex features, such as earnings disregards or a prolongation of benefit payments after benefit take-up. While mostly crude, such measures have been adopted in response to concerns about possible work disincentives created by the schemes[103]. Other, more complex measures, such in-work benefits or detailed accounting of assets and customized activation trajectories characteristic of Western schemes, are often lacking. Ensuring that "work pays" is achieved in a majority of countries by providing social assistance recipients with very low benefits and linking them to public works.

Beyond the general commonalities, the eight social assistance programs display substantial divergence, especially in the size and generosity of the basic rates as well as in the mix of central and local responsibilities. Analyzing the differentiation among West European minimum income schemes, Lødemel and Shulte (1992) advance three possible explanations, namely culture, the extent of poverty and the historic development of social insurance. Similar factors may account for Central and East European variation. Firstly, a strong tradition of charity and local

[103] It is also likely that CEE countries have emulated some of the innovations developed in the West.

involvement in dealing with the poor is likely to bring about a more localized program. The tradition of big urban centres of setting up special programs to deal with poor women (Haney 2002) may have played a role in the establishment of the most decentralized social assistance scheme in the CEE region. Secondly, countries experiencing lower poverty levels, in principle, benefited from more time and resources in developing their public assistance safety nets. Indeed, the wealthiest countries, the Czech Republic and Slovenia have both the most generous transfers and the most sophisticated programs. On the contrary, countries where poverty is relatively widespread such as Poland or the Baltics may have had to contend with meagre, more rudimentary schemes. Finally, despite of shrinking resources and escalating poverty rates, no country has made any decisive attempt to replace an insurance based welfare state with one heavily relying in targeting. Quite the opposite, new poverty problems have first and foremost been addressed through the existing social insurance programs. The size of the social assistance program can be hypothesized to have been influenced by the form of the social protection system under socialism. Countries that have developed systems orientated toward universalism and inclusion, such as Czechoslovakia and Slovenia (Inglot 2008) also tend to spend relatively more on means-tested cash assistance. Conversely, states such as Poland or the Baltic States that have had a relatively fragmented, unequal and hierarchical system in place tend to assign lower importance to public aid. The existence of well-entrenched privileged categories might discourage the setup of a relatively universalistic program such as social assistance, favouring instead separate channels of aid for these categories, such as for example, severance payments. Obviously, this proposition remains a hypothesis to be confirmed or disproved by empirical research.

If in Western Europe minimum guaranteed income programs have been transformed into a support system for the casual, low-paid worker for whom traditional unemployment insurance does not provide protection (Guibentif and Bouget 1997), in Central and Eastern Europe they play an even more residual role. Since benefits cannot alone guarantee subsistence, they probably supplement agricultural, family and grey economy incomes and child and large family benefits. No reliable estimate of the take-up rate has been put forward so far.

4 OUTCOMES OF SOCIAL ASSITANCE IN CENTRAL AND EASTERN EUROPE: A PRE-TRANSFER POST-TRANSFER COMPARISON

This chapter sets out to explore in a comparative setting just how successful the established social assistance schemes in Central Europe[104] have been in reaching their goal, namely alleviating and diminishing poverty. Extensive use is made of a three wave panel, the European Union-Survey of Income and Living Conditions (EU-SILC) to carry out the analyses. The arguments are organized in four parts.

First, some of the previous research and findings relating to social assistance policies and poverty, mostly derived based on Western European examples, are presented. Second, a short presentation of the dataset that is used follows and the advantages and disadvantages of pre-post comparisons are spelled out. Third, social assistance performance in the eight Central and East European countries is examined through twenty-six indicators relating to the programs' generosity, effectiveness and efficiency. Finally, a discussion follows and conclusions are drawn.

4.1 SOCIAL ASSISTANCE AND POVERTY IN EUROPE: CROSS-NATIONAL COMPARISONS

Research on European means-tested programs has largely been limited to describing, comparing and finally classifying programs based on their features, as well as constructing a few gross outcome indicators. The following section reviews the main findings leaving a more thorough discussion on the economic mechanisms and the potential effects of social assistance to be take up in chapter 5. Chapter 6 will take up the potential effect of participation in a means-tested program on asset ownership.

Largely following the regime typology developed by Esping-Andersen (Esping-Andersen 1990) based on variation in insurance programs, Lødemel and Schulte (1992) distinguish between four types of social assistance: a well-developed, universal and undivided "institutionalized poverty regime", a "differentiated poverty regime" in which some categories are better protected than others, a "residual poverty regime" in which means-tested benefits are largely marginalized by extensive and generous social insurance and a strong emphasis on social work and control exists and an "incomplete differentiated regime" where universal programs are basically lacking. The four clusters may be viewed as the social assistance counterparts to the liberal, corporatist, Nordic, and South European insurance regimes respectively.

Arguably, the most well known study of social assistance was carried out by Eardley et al (Eardley, Bradshaw et al. 1996; Gough, Bradshaw et al. 1997). It surveyed experts from 23

[104] Eight CEE countries are analyzed Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia; Romania and Bulgaria have been excluded due to current unavailability of data in the EU-SILC;

OECD countries in an attempt to put together comparable detailed information about social assistance design. The authors used three criteria, namely extent defined by expenditure and size of the client population, an exclusion index, and benefit generosity to derive seven types of social assistance schemes. The classification was derived theoretically. Later on, Gough used the same three criteria in a cluster analysis that largely confirmed the existence of the seven groupings (Gough 2001).

In a follow up of the study, Ditch and Oldfield (1999) reviewed legislative changes concerning social assistance in 18 of the 23 countries and found three main trajectories. The majority of the countries retained the core features of their programs and made only minor modifications and updating. Two Southern countries made important extensions of their existing means-tested benefits, substantially increasing coverage and possibly also benefits. Finally, a third group of countries, mainly English-speaking nations have attempted important innovations and alterations by bringing in elements that emphasize work incentives and self-sufficiency. One common trend though seems to be taking place in every country, namely the expansion[105] of social assistance both in the allocated budget and in the size of the population served (Ditch 1999; Hanesch 1999).

Reviewing social assistance in seven West European countries, Heikkila et al (2001) conclude that program variation largely corresponds to the welfare regime typology. Thus, high benefits, clear rights, unlimited duration, the presence of supplementary benefits, and a strong emphasis on employment facilitating measures characterize means-tested assistance in Nordic countries. In the Conservative cluster, social assistance is a clear right but a responsibility exists to support members of the extended family. Lastly, in the Latin Rim region, benefits are low, effective payments are dependent on budgetary considerations and their awarding is strongly discretionary and the responsibility is heavily placed on the family to support its members.

In addition to typology construction, another strand of research has attempted to establish potential links between regime types on the one hand, and poverty and inequality outcomes on the other hand by using pre-transfer post-transfer comparisons. In a Luxembourg Income Study based study, Sainsbury and Morissens (2002) found that, despite their being classified as residual and relatively stringent, means-tested benefits in Nordic countries were the most effective in bringing their clients above the poverty line. Nordic social assistance schemes were also the most effective in reducing poverty for most vulnerable groups. On the contrary, conservative and South European countries had, with the exception of Germany, the least effective means-tested programs. While they were somewhat successful in protecting the elderly, they failed to prevent poverty among the unemployed and families with children.

[105] The increase appears to be fuelled both by demographic and labour market changes and by policy shifts in as much as access to social insurance is restricted and benefits cut back in an attempt to control expenditure; consequently, some individuals and families are pushed from insurance into means-tested assistance Hanesch, W. (1999). The Debate on Reforms of Social Assistance in Western Europe. Linking Welfare and Work. Dublin, European Foundation for the Improvement of Living and Working Conditions: 71-85.

A similar study (Kuivalainen 2005) used three program characteristics, namely extent (measured as expenditure), entitlement (based on the income, asset and work test) and generosity (measured as the standard benefit amount for two types of families) together with outcomes (measures as poverty reduction among the recipients) to check the validity of existing typologies, as well as to link program characteristics to outcomes. The results suggested that countries that had less extensive schemes tended to also disburse higher benefits and ultimately to more effectively reduce poverty within the client population. A companion paper (Kuivalainen 2005) compared the adequacy and poverty reduction effectiveness of social assistance transfers among various family types, based both on the family method and on the Luxembourg Income Study databank. The findings revealed that, irrespective of the program characteristics, the elderly benefited from better protection than the young. Only the Nordic countries had in place social assistance programs that were capable of markedly reducing poverty across the board, and especially among single parents.

Utilizing the same dataset, Hölsch and Kraus (Hölsch and Kraus 2006) examined the potential links between redistributive outcomes of means-tested transfers and their level and statutory setting on the one hand and their (de)centralization, on the other hand. They concluded that programs serving a larger population tend to be correlated with better redistributive outcomes whereas higher benefits or higher expenditure are not. Extensive programs were also found to be associated with more inefficient redistribution. While no link between centralization and redistributive impact could be discerned in this study, previous research (Hölsch and Kraus 2004) has shown extremely centralized programs to be both more effective and more efficient in guarding against poverty compared to extremely decentralized systems. However, the evidence did not support a straightforward, linear relation between effectiveness in reducing relative poverty and inequality and centralization. Rather it pointed to moderately centralized schemes performing better than either very centralized, or strongly decentralized ones.

Using Sweden, Germany and the United Kingdom as examples of three different modalities of organizing and providing protection, Behrendt (1999; 2000) suggested that both the Swedish and the British social assistance schemes achieve superior results in preventing poverty compared to the German program. In particular, the extensive and well institutionalized British means-tested benefit is very successful in virtually eliminating the harshest forms of poverty, whereas Swedish social assistance tends to channel benefits towards the moderately poor.

Reviewing the role of the various social transfers in preventing poverty, de Neubourg et al(2007) concluded that, relatively speaking, means-tested benefits play a minor role in preventing poverty throughout Europe. Conversely, social insurance transfers play a crucial role in preventing poverty among large strata of the population. Social insurance may play another, more indirect, role in combating poverty. By effectively offering support to the vulnerable, it reduces demand for means-tested public assistance. In turn, social assistance programs seem to offer larger benefits and to be more effective in reducing poverty when they deal with relatively

small caseloads (Ditch 1999; de Neubourg, Castonguay et al. 2007). Larger benefits also seem to be correlated with strict enforcement of eligibility rules, relatively tough income and asset tests, as well as a strong emphasis on returning to work (Hanesch 1999; de Neubourg, Castonguay et al. 2007). However, this association largely rests on the presence of Nordic countries.

In a study of social assistance recipients in several European cities, Saraceno et al (2002) point out that very stringent targeting has a series of negative effects that tend to undermine the capacity of social assistance to relieve or eliminate poverty. First, the existence of very harsh eligibility rules automatically selects in only the population with very severe integration problems, and thus likely to receive the benefit for extended periods of time. Both long-term receipt and the composition of the recipient population are likely to accentuate the stigma and de-moralizing effect associated with participation in the program. Second, by limiting intervention to only a very few cases, the opportunity of an early intervention, before all resources are exhausted is missed. Similarly, very low benefits tend to stigmatize recipients, as well as force them to rely on a combination of informal earnings and means-tested benefits for survival. Once this situation is established, it tends to be resistant to change. Finally, the enforcement of strict duration limits fosters a re-cycling of recipients as leaving the scheme is not equated with establishing self-sufficiency.

In addition to cross-national comparisons, a few in-depth reviews of the national public assistance framework have been carried out. In Germany, social assistance has morphed from a benefit catering to the elderly, the disabled and other individuals in special conditions to a transfer designed to support the unemployed (Adema, Gray et al. 2003). The overlap of responsibilities and cost shifting between the various administrative levels, the high stigma resulting from the consideration of the children's and parents' resources in the means-test, relatively high replacement rates especially for families with children and single parents are identified as the main attributes of German social assistance. The strong stigma attached to benefit receipt is thought to trigger high non-take up rates, in the range of 35-63%. Analyzing German data from the beginning of the 1990's, Riphahn (2000) estimates that non-take up has been increasing in the 1990's relative to earlier periods, reaching approximately 60%. Higher benefits, longer expected duration of receipt and lower stigma, all are found to lessen the likelihood of non-take-up.

Similar high non-take up rates have been found in the Nordic countries (Gustafsson 2002; Bargain, Immervoll et al. 2007), ranging between 40% and 80%. Akin to the German results, the expected size of the benefit and duration of receipt, the existing and expected income, age, the presence of children and the strength of stigma brought about by claiming influence the probability of benefit take-up. When transfer receipt becomes more widespread, the associated stigma normally decreases. The relatively low take-up rate in the Nordic countries is somewhat in contradiction with their means-tested programs' ability to reduce poverty found in previous studies.

Evidence of the link between stigma and take-up has also been ascertained on Swiss data (Obinger 1999). In the same context, very discretionary means-tested programs, administered by non-professional, part-time workers recruited from the local community are especially stigmatizing, and hence have very low take-up rates. However, the strong targeting is considered to be enabling the provision of relatively high benefits (Obinger 1999), whereas decentralization brings fragmentation and possibly confusion about entitlement and benefits.

Australia and New Zealand constitute an interesting case for public assistance research due to their heavy reliance on income and means tested benefits in lieu of Bismarckian social insurance. As a consequence of this particular feature, they have been designated as selective welfare states (Eardley, Bradshaw et al. 1996; Mood 2006). Research on Australian data (Mood 2006) has largely confirmed findings derived from the study of European social assistance. In a system where large sections of the population receive means-tested benefits, take up rates are comparatively high, around 80 to 85%. The positive relationship with expected benefit amounts and social acceptability of receipt, as well as the negative link with current income and non-income resources has been confirmed.

To a large extent, research on European social assistance schemes has attempted to imitate the regime typology tradition developed based on more prominent social insurance programs. In fact, some studies (Lodemel and Schulte 1992; Guibentif and Bouget 1997; Behrendt 2000; Heikkilä and Keskitalo 2001) have implicitly or explicitly replicated the welfare state country groupings using social assistance characteristics. Scandinavian countries have been found to host the most generous and comprehensive transfer programs, whereas South European states offered only very stingy, unreliable and short-term benefits. Others however (Eardley, Bradshaw et al. 1996; Gough, Bradshaw et al. 1997; Sainsbury and Morissens 2002) have failed to find the same one to one correspondence.

When it comes to outcomes, two issues have primarily received attention. First, keeping in mind that to have any effect on poverty, means-tested transfers have to reach the vulnerable and the destitute, some authors have focused on the issue of benefit take-up (Obinger 1999; Riphahn 2000; Gustafsson 2002; Adema, Gray et al. 2003; Mood 2006; Bargain, Immervoll et al. 2007). Generally, the take up of means-tested benefits is relatively low in Nordic and Continental countries whereas it is somewhat higher in the countries of the liberal cluster, such as UK. Most consistently, these studies have indicated that the extent of non-take-up is negatively related to the extent of program participation within the population. Second, poverty reduction effectiveness has been gauged by simulating pre-transfer poverty rates and other poverty indicators and comparing them with the post-transfer situation. The results of this endeavour are less clear-cut than those concerning non-take-up. Generally though, means-tested social assistance best protects against poverty in the Nordic countries, a finding which is somewhat inconsistent with the low take-up rate characterizing these schemes. Depending on the chosen indicators, the British social assistance may perform very or only moderately well, while assistance in Continental and Mediterranean nations provides inadequate protection.

Albeit the country clustering and comparisons are occasionally used to draw inferences on the interconnection between program features and outcomes, research on European social assistance is largely limited to a descriptive and classificatory exercise. To a large extent, a thorough discussion of which program characteristics are the most important in triggering poverty reduction, as well as of the manner in which various program traits complement and interact with each other is lacking. The issue of how to design means-tested benefits so as to facilitate the reintegration and long-term well-being of the poor has been addressed much more vigorously in the American context. The topic will be taken up in the next chapter.

4.2 DATA AND METHODS

All of the analyses carried out are based on the four consecutive waves (2005-2008[106]) of the European Union-Survey of Income and Living Conditions (EU-SILC). The database is particularly suited for the endeavour since it offers detailed information at the micro level about household income levels and sources, social assistance included. Moreover, it is the first cross-national study to collect such information in a large number of former socialist countries in a framework that emphasizes comparability. The availability of SILC allows for pre-transfer post-transfer comparisons to be carried out on actual household populations rather than on hypothetical examples (such as for example in the case of work using model families)[107]. In addition to basing the analysis on 'actual' households, this approach has the important advantage that it recovers not only central measures but also distributions around it. In the second part of this chapter, some of the analysis is repeated separately for several demographic groups. Even in this case, I am able to consider the entire distribution of households with a given characteristic (for example, single parenthood) rather than just a 'model' example. Last but not least, some issues such as for example the ability of the program to reach the poor can only be answered using micro-data.

With the exception of Slovenia which resorts to register data, the other countries use survey information to establish the types and corresponding amounts of income a household relies on. Hence, the quality of the data is vulnerable to intentional or accidental reporting errors. In particular, since receipt of means-tested benefits is often associated with stigma, information on this type of income is particularly susceptible to underreporting. Given the size of the informal economy throughout the former communist bloc, total net disposable income may also be underestimated. Nevertheless, keeping these shortcomings in mind, the EU-SILC still

[106] At the time of writing, only three waves (2005-2007) have been integrated in a longitudinal dataset; consequently, the cross-sectional database is used to compute figures for 2008;

[107] An example where the model family approach is used extensively to compare social assistance programmes is the CSB-MIPI project- Van Mechelen, N., S. Marchal, et al. (2011). The CSB-Minimum Income Protection Indicators dataset (CSB-MIPI). CSB Working papers. Antwerp, CSB, University of Antwerp. **No 11/05**.

constitutes the best data source for a comparative study of means-tested benefits in Central and Eastern Europe.

Information about social assistance payments is provided through a variable termed social exclusion, elsewhere not classified. It incorporates two components, namely on income support (periodic payments to people with insufficient resources) and other cash benefits[108] (support for destitute and vulnerable persons to help alleviate poverty or assists in difficult situations). In addition, data is also available on means-tested housing allowances (either as a rent benefit or any other form of payment that is disbursed to compensate for housing costs). The social assistance variable used throughout the remainder off the paper is constituted by adding the two components, i.e. social exclusion not elsewhere classified and means-tested housing allowance. The choice of including the latter rests both on its substantive importance and on an attempt to improve comparability. Some countries treat housing allowances as part of the general package offered to those who prove to be unable to satisfy their own needs by passing a means test. Others make the benefit more widely available, that is to say they have less stringent qualifying conditions for the housing allowance compared to the social assistance means test. On the one hand, housing constitutes one of the most important components of household consumption and therefore, one of the strongest influencing factors of its living standards. As a result, housing provision represent a major channel through which the state can intervene to lift a family out of poverty. On the other hand, since in some cases the housing allowance is integrated and cannot be separated from the overall social assistance benefit, inclusion of income or means-tested housing allowance in the analysis is necessary for reasons of comparability.

Numerous controversies surround the definition of poverty. Arguments in favour and against have been formulated regarding both absolute and relative measures. Official poverty lines are almost without exception absolute, although relative approaches might be used to set them (such as, for example, investigating the consumption patterns of the lower-income households). Furthermore, absolute poverty lines have the upside of not being influence by the income distribution. However, in this paper, a choice has been made to use a relative line, for two reasons. First, since the countries included in the analyses exhibit wide disparities in their wealth and living standard, the use of a single absolute line would be obviously inappropriate. A relative approach avoids the need to establish eight equivalent poverty lines. Second, since poverty is not only an economic but also a social phenomenon, a relative approach better underlines this latter dimension. In keeping with the Eurostat definition of the at-poverty-risk, the first poverty threshold is defined as having a household equivalised income below 60% of the median (equivalised income). Since this is considered to be a relatively high poverty line, a second, more conservative one, i.e. 50% of median income is also included.

[108] The latter component may include payments or services offered by private NGOs; unfortunately, there is no way to disentangle the public provision (direct or only publicly financed) from the private one; however, it is unlikely that this shortcoming will significantly influence the results;

The poverty reduction potential of general social assistance in the eight Central and East European countries is assessed by calculating pre-transfer and post-transfer poverty indicators. In addition to enabling a first rough estimation of program performance, this approach carries a few advantages. First, it is relatively simple and straightforward. Second, and more importantly, any poverty reduction thus detected can be attributed relatively unambiguously to program participation. However, the method also implies a major drawback in that it completely ignores potential behavioural effects. More specifically, the counterfactual construction in this case assumes that the presence or absence of the program does not otherwise influence the behaviour of potential recipients. Such an assumption obviously does not hold. Still, a pre / post transfer comparison can be considered a useful first step in examining the performance of social transfers.

Since eligibility conditions, as well as benefit generosity are often differentiated across household types (through equivalence scales, extra amounts for single parents, and large families etc.), the pre- post-transfer indicators are computed both for the general population and separately, for six family types, namely couple with two children, single person aged under 65, single person aged 65 and over, couple with 3 or more children, single parent living alone, single parent living with other adults. Together these family types constitute between 40% and 52% of the sample. Of the two poverty lines proposed above, the higher one is seen as indicating risk of rather than actual deprivation/poverty, and as such, is likely to be well above eligibility thresholds present in mean-tested programs. As a result, only indicators based on the 50% median equivalised disposable income are shown for the six family types. It should be kept in mind though that this disaggregation drastically reduces the number of cases in some instances. Consequently, depending on the family category, the computed parameters show significant instability for some country-years.

Before continuing with the analysis, a few technical remarks are in order. First, since some inconsistencies have been found in the equivalised household income variable provided in the dataset, a new variable has been constructed by multiplying the total net disposable income with the intra-household non-response inflation factor and dividing it by the household's equivalised size[109]. Accordingly, a new poverty status indicator has been computed based on the new equivalised disposable income variable. Second, for each of the two components forming social assistance, two variants are available, i.e. gross and net. Some countries have recorded only gross sums and some countries have recorded only net sums. Since social assistance benefits are usually non-taxable, gross figures have been used for countries where the net sum was missing. Third, all figures have been computed based on personal and, in some cases, household weights[110]. Fourth, in all eight countries, the income reference period refers to the year previous

[109] The EU-SILC variable is used in this case; in turn, this amounts to the modified OECD equivalence scale of 1, 0.5 for additional adults and 0.3 for children;

[110] Longitudinal weights have been used for 2005, 2006 and 2007, whereas the analysis for 2008 relies on cross-sectional weights;

to the survey. Thus, income is collected for the following years: 2004, 2005, 2006 and 2007. As such, all information currently available in the dataset relates to program performance during periods of positive economic growth. Although it would undoubtedly be of great interest to gauge the performance of means-tested last-resort income support in the face of economic recession, this will only be possible once the 2009 wave is released.

4.3 RELATIVE POVERTY IN CENTRAL AND EASTERN EUROPE

Table 4.1 presents the value of the 60% of median equivalent income and of half the median equivalent income respectively. Despite their common communist past and transition period, countries in Central and Eastern Europe display wide disparities in living standards. The relative poverty lines are around four times higher in the richest country (Slovenia) compared to the poorest (Latvia and Lithuania). Thus, it should be kept in mind that the material situation of those considered to be poor can be dramatically different depending on the country they reside in.

Table 4.1. Annual poverty lines in Central and Eastern Europe (Euros)

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Poverty line-60% of median household equivalised income								
2003		1499						
2004	2539	1775	2102	1319	1278	1503	5293	1707
2005	2880	2161	2304	1553	1537	1784	5560	2002
2006	3252	2638	2341	2094	1960	2101	5934	2394
2007	3638	3328	2639	2502	2899	2493	6667	2875
Poverty line-50% of median household equivalised income								
2003		1249						
2004	2116	1479	1752	1099	1065	1253	4411	1422
2005	2400	1800	1920	1294	1281	1487	4633	1668
2006	2710	2199	1951	1745	1633	1751	4945	1995
2007	3032	2774	2199	2085	2416	2077	5556	2396

Note: Poverty thresholds are computed at the individual level, using household weights; the figures refer to the year prior to the survey, i.e. 2003-2007;
Source: Own calculation based on EU-SILC 2007 longitudinal database and on the EU-SICL 2008 cross-sectional database;

All countries in the region experienced strong economic growth during the 2003-2007 period. Reflecting this trend, both relative poverty lines have increased, sometimes substantially, throughout the region. Poorer countries have grown proportionally more, sometime overtaking richer ones (for example, at the outset of the four year period the income lines are much lower in Estonia and the Slovak Republic compared to Hungary, but at the end of the period the reverse

is true). Poverty lines in the eight countries are somewhat closer to one another in 2007 compared to 2004. The increases however are not proportional, as income raises have benefitted differently the various sections of the low-income population. Thus, the increase in the incomes of the poorest has been very strong in Estonia between 2004 and 2007, whereas Hungary experienced strong growth in income for the near-poor but a much weaker expansion in the incomes of the very poor between 2005 and 2006. Nevertheless, gains in the lower poverty threshold indicate steady and substantial income boosts for the poorest in every country. Notably, no consistent cross-national or cross-temporal pattern of pro-poor growth becomes apparent.

Based on the two poverty lines, Table 4.2 displays the poverty rate (headcount index) and poverty gap respectively for each country and wave of the dataset. Both poverty definitions indicate that poverty is most widespread in Poland and the Baltic States (around 10 to 18% according to the more conservative definition of poverty and 17-25% according to the more liberal one) and least present in the Czech Republic, Hungary, Slovenia and the Slovak Republic (around 5-7% based on the 50% median equivalised income line and 9-12% according to the 60% median equivalised income threshold).

Table 4.2 Poverty rates and size of poverty gap in Central and Eastern Europe

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Poverty rate- at 60% of median household equivalised income								
2003		19,35						
2004	10,36	18,09	12,57	18,13	21,32	20,10	12,07	12,97
2005	9,83	18,53	14,91	22,05	18,95	18,48	11,68	11,81
2006	9,68	18,69	12,52	22,20	19,03	17,24	11,52	9,68
2007	9,06	19,46	12,39	25,58	19,99	16,88	11,61	10,87
Poverty rate- at 50% of median household equivalised income								
2003		12,11						
2004	5,46	11,12	7,31	11,48	14,54	13,88	7,00	8,32
2005	4,94	11,00	9,06	15,33	11,92	11,71	6,56	6,85
2006	5,00	10,35	7,46	15,10	12,33	10,99	6,19	5,00
2007	4,71	11,49	6,41	18,58	13,74	10,25	6,26	5,74
Poverty gap (as % national poverty line)-at 60% of median household equivalised income								
2003		34,53						
2004	23,26	31,27	22,88	32,67	32,64	34,52	23,52	30,08
2005	21,24	29,02	28,64	32,56	31,62	28,95	23,72	25,02
2006	22,64	26,59	24,10	31,22	30,53	28,58	22,52	23,87
2007	22,92	26,84	22,05	32,08	31,04	27,21	22,90	26,33
Poverty gap (as % national poverty line)-at 50% of median household equivalised income								
2003		40,36						
2004	23,84	35,15	20,09	36,62	33,06	35,37	22,09	31,28
2005	21,18	32,21	31,10	31,65	34,88	29,15	22,97	24,84

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2006	23,55	29,66	21,54	30,56	31,24	27,95	22,11	26,70
2007	24,69	27,27	22,86	29,12	29,59	27,50	22,94	31,91

Note: Figures are constructed on the individual level, using household weights; figures refer to the year prior to the survey, i.e. 2003-2007;
Source: Own calculation based on EU-SILC 2007 longitudinal database and the EU-SILC 2008 cross-sectional database;

Despite the strong increase in the poverty line, poverty rates remained relatively stable during the three years included in the analysis. Only Poland experienced consistent yearly declines of its poverty rate during the entire period, irrespective of which line is used to construct the poverty rate. Between 2004 and 2007, its poverty rate dropped approximately 3.5 percentage points, not an unremarkable achievement for a period of four year. The contrary pattern may be observed in Latvia, where the poverty rate consistently increased during the entire observed period by roughly seven percentage points, a very large increase. In the remaining countries, stability prevails. Albeit minor fluctuations are registered, poverty rates in 2007 are remarkably similar to those registered in 2004. With the exception of Poland, the Czech Republic and Hungary, all countries experienced a rise in poverty levels in 2007 compared to the previous year.

The lower half of Table 4.2 contains information relating to the average poverty gap, measured as a percentage of the relevant national poverty line. Although in this case cross-national variation is not as striking as in the case of poverty rates, two country clusters are easily distinguishable. The first one contains the Czech Republic, Hungary, Slovenia and the Slovak Republic, all countries in which the average poverty gap is about a fifth of the national poverty line. The second group, comprising the three Baltic States together with Poland, exhibits a pattern of deeper poverty. Mean poverty gaps in this cluster reach about a third of the national poverty line. Quite interestingly, the depth of poverty appears of similar magnitude whether it is based on the more stringent poverty line or on the more liberal one. The exception is the Slovak Republic in 2006 and 2007 where poverty is deeper when measured using the lower threshold. A significant reduction in the depth of poverty occurred in Poland. Quite remarkably, the gap irrespective of how it is measured, decreased by approximately 7 percentage points. Estonia was also successful in diminishing the severity of poverty, especially when measured at the lower line. The gap diminished by almost 13 percentage points, albeit from a very high base. In the other six countries, despite yearly fluctuations, poverty gaps remained relatively stable, as gains tend to be offset by weaker performance in subsequent years.

Despite the advances made by Poland, and in some cases by Estonia, as well as by adverse trends in the Slovak Republic, the broad division between the four low-poverty countries and the four high poverty ones is maintained throughout the four year period. Notably, the high poverty countries (the three Baltic States and Poland) contain both the highest poverty rates and the largest poverty gaps. On the contrary, poverty in countries with low or moderate shares of the population vulnerable economically (the Czech Republic, Hungary, Slovenia and the Slovak

Republic) is shallower, suggesting a positive correlation between spread and severity of poverty. Similarly, temporal trends in the poverty rates have broadly mirrored those in the average poverty gap, although the correspondence is far from perfect (for example, using the stricter 50% median equivalised income definition of poverty, rates have declined in the Slovak Republic, whereas the gap has increased). Overall, at the country-year level, there is a 0.65 correlation between the headcount index and the mean gap, when poverty is defined based on equivalised income below 50% of the median. The correlation increases to 0.85 when the alternative specification, i.e. equivalised net disposable income under 60% of the median, is used instead.

4.4 PERFORMANCE OF SOCIAL ASSISTANCE SCHEMES IN CENTRAL AND EASTERN EUROPE

While poverty levels are the result of multiple factors affecting the level and distribution of income, means-tested transfers explicitly aim at dealing with poverty. Thus, since they are above all a poverty fighting instrument, social assistance programs should be primarily evaluated on how successful they are in reducing the extent and severity of poverty, a dimension termed henceforth effectiveness. Yet, there are other angles from which means-tested programs may be viewed. Social programs have to operate in a context of limited budgets and tight spending. Therefore, the cost of achieving poverty reduction amounts to a second evaluative criterion. Finally, similarly to the welfare regime research tradition, means-tested programs have been compared in terms of their size and generosity. While not directly addressing outcomes, these types of indicators provide relevant intermediary information on how the program operates, as well as on potential effects. The next three sub-sections, each deal with one of the three broad assessment criteria outlined above.

In assessing the relationship between poverty characteristics and social assistance transfers, poverty is taken to be a household concept. This approach implicitly assumes that members of the same household equally share resources among themselves. While this assumption may not always be justified, intra-household allocation issues are beyond the scope of this analysis. Having said that, social assistance schemes may not necessarily defined their unit of assessment as the household. Indeed, social assistance programs in three out of the eight countries-namely the Czech Republic, Lithuania and the Slovak Republic assess eligibility and establish amounts using a unit smaller than the household. This may affect the results of the subsequent analyses as well as the comparability between countries. Unfortunately, SILC collects information about social assistance receipt at the household level rather than the individual level so it is impossible to tell in a multiunit household which one(s) of the units received the transfer.

This prevents an analysis strictly using the unit of social assistance receipt. However, a sensitivity check may be performed by looking at results derived using only single unit households (i.e. ignoring multi-unit households). A comparison of results using all households to those using single unit households only is shown in Appendix 2 for the three countries where this issue is relevant. While some differences do exist, they are small and do not affect the substantive conclusions emerging from the main analysis. In the following sections, both poverty and social assistance receipt are construed at the household level.

4.4.1 EXTENSIVENESS\ GENEROSITY

One angle from which social assistance programs can be looked at is extensiveness/ generosity. This dimension is concerned with how much resources a country devotes to the program and its clients. Since social assistance schemes are only one component in a much larger welfare setup, the size of a social assistance program may be interpreted in two ways. Previous research has pointed out that most countries in Continental and Northern Europe spend relatively little on their social assistance programs because other national programs usually kick in to provide resources for the needy, before social assistance does. Thus, there is little need for an extensive social assistance net. Therefore, a large social assistance budget may be indicative either of a more generous program, or of a stronger reliance on this type of program to meet various social needs. Tables 4.3 and 4.4 summarize five extensiveness/ generosity measures, namely percent of the population receiving benefits, the average disbursed benefit in Euros, spending per poor person, spending[111] relative to the total poverty gap, and benefit amounts as a share of poor recipients' total disposable income. Each of the latter three indicators is presented in two variants, namely one based on the 60% median equivalised household income and the other on the 50% median equivalised household income.

Table 4.3. Extensiveness/ generosity of social assistance transfers in Central and Eastern Europe-I

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
% of the population receiving SA								
2003		4,78						
2004	12,14	3,84	15,34	10,22	6,36	10,93	17,36	13,64
2005	11,88	2,67	12,46	7,01	5,20	11,30	15,86	8,16
2006	9,75	1,94	11,81	7,72	5,59	9,88	15,59	6,54
2007	5,21	2,91	18,04	9,26	5,92	8,14	12,02	5,18
Average disbursed benefit per person (adjusted based on the equivalence scale)								

[111] The two spending indicators are better interpreted as measures of generosity as they refer to persons who are poor after all social transfers, except social assistance;

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2003		248,33						
2004	401,79	175,42	253,37	93,18	156,21	119,08	716,34	326,58
2005	464,74	207,57	121,97	103,69	105,98	169,34	740,68	416,91
2006	588,37	211,93	118,60	116,23	148,27	214,99	720,44	390,32
2007	551,88	283,07	168,56	200,36	166,13	222,92	725,37	521,23
Spending per poor person (poor defined on the 60% median equivalised income)								
2003		45,13						
2004	268,26	24,66	190,02	34,90	28,95	40,61	571,27	202,11
2005	301,96	22,34	60,65	21,64	19,09	61,35	551,71	174,52
2006	328,46	15,07	64,50	25,68	28,34	72,96	534,79	155,33
2007	200,81	30,13	143,17	52,46	29,00	67,80	443,11	146,93
Spending per poor person (poor defined on the 50% median equivalised income)								
2003		71,73						
2004	423,01	39,77	325,32	56,06	41,59	58,70	937,78	287,51
2005	526,18	37,34	98,51	30,71	30,04	94,22	954,67	289,45
2006	528,54	27,21	106,13	37,63	43,18	111,03	904,31	271,64
2007	349,55	50,24	260,58	71,52	41,32	108,69	736,87	265,62

Note: Figures are computed at the individual level, using household weights; figures refer to the year prior to the survey, i.e. 2003-2007
Source: Own calculations based on the EU-SILC longitudinal database and the EU-SILC 2008 cross-sectional database;

The highest proportion of recipients is registered in Slovenia during 2004, where around 17% of respondents live in a household that has reported receiving social assistance payments[112]. Receipt of the transfer is also relatively widespread in Hungary throughout the entire period, in the Slovak Republic in 2004, and the Czech Republic in 2004 and 2005 where the client population is in excess of 10%. At the opposite end, Estonia runs a very restricted scheme, making benefits available to between 2 and 5% of the population, depending on year. Extensiveness is also reduced in Lithuania, and in Slovakia starting with 2006, as benefit receipt is largely reduced to around 5% of the population. In between, in Poland and Latvia means-tested benefits reach around 7-9% of the adult population. Benefit receipt fell strikingly in the Slovak Republic between 2004 and 2007 from around 13% to 5%. It is not cleared whether this decline occurred due to decreased need or whether it can be attributed to stricter entry screening and/or faster exit. It should be noted though that in 2004, the Slovak Republic enacted a social assistance reform, effectively capping guaranteed payment of benefit to two consecutive years[113]. This change of rules may be partially driving the declining receipt levels. Declines in benefit

[112] It is important to remember that the social assistance variable encompassed means-tested or income-tested support for housing costs, which may be available on a wider scale than the minimum income guarantee benefit alone; however, no separate housing allowance exists in Slovenia in 2004;
[113] After 24 months, municipalities step in and cover the benefit; see European Commission, D. E., Social Affaires and Equal Opportunities (2010). Mutual Information System on Social Protection Database, European Commission; http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en.

receipt, albeit less marked, are also noticeable in Estonia, the Czech Republic and Slovenia. Both countries (the Czech Republic in 2007 and Slovenia in 2006) have taken measures to reduce outlays by toughening eligibility, especially enforcing more strictly the work availability as a condition of entitlement.

The second indicator in Table 4.3 presents the average disbursed benefit per person, adjusted to reflect the proportionally smaller amounts normally awarded when several individuals belong to the same family. The divergence is indeed striking. As the richest country in the sample, Slovenia disburses the highest benefits. The Czech and Slovak Republics also have relatively high average disbursed benefits, approximately two thirds of the Slovenian mean transfer. Among the Baltic States, Estonia makes available markedly more generous benefits in comparison to Latvia and Lithuania. Hungary and Poland have relatively similar, moderately generous average disbursed benefits, albeit the trends in the two countries are opposed. Thus, benefits are declining in Hungary while rising in Poland. Notably, most countries have consistently raised average benefits disbursed by their social assistance programs. It should be remembered though that the poverty line also increases yearly in every country from 2004 to 2007. In fact, poverty lines rise much more spectacularly than the average disbursed benefit, a sign that, in times of economic growth, social assistance might be ill suited to equalize incomes at the bottom. The increases are proportionally highest in countries where benefits were initially lowest. Thus, as cross-national differences gradually diminish in time, a mild convergence trend is noticeable.

The next two indicators in Table 4.3 offer information on spending patterns in relation to existing needs. They illustrate the average amounts spent in each country in relation to the poor population, defined first using a higher and then a lower poverty line. Care must be taken when interpreting these two indexes, as richer countries obviously need to spend more to bring a person above the poverty line. Even so, it is plainly apparent that all three Baltic countries, together with Poland and to a lesser extent Hungary spend very little relative to the size of their poverty stricken population. The contrast with the highest spenders, i.e. the Czech Republic, Slovenia and the Slovak Republic could not be stronger. For example, in 2004, Slovenia spent 19 times more per poor person[114] than Lithuania, a difference that cannot be justified in terms of economic wealth alone. It is interesting to note that with the partial exception of Hungary, countries that spend little relative to the size of the poor population are characterized by soaring poverty rates. Moreover, despite the fact that the relative poverty line increased in the three year period under study, spending per poor person shrunk substantially in many countries, regardless of whether poverty is construed using the higher or the stricter definitions. In effect, only Latvia and Poland spend more per poor person in 2007 compared to 2004. Since average benefits have remained constant or have been growing, the fluctuations in the amount spent per poor person are presumably due to diminishing ability of the programs to reach the poor.

[114] Defined using the 60% median poverty line;

Perhaps a better indicator of spending relative to need is expenditure as a share of the total poverty gap (see Table 4.4). The indicator has been constructed by dividing total spending[115] by the amount that would be needed to bring all the poor above the poverty line (assuming of course no identification errors). When poverty is measured as having a household equivalised income below 60% of the median, spending is grossly inadequate in all countries. Only Hungary and Slovenia in 2004, as well as the Czech Republic in 2004 and 2005 disburse enough transfers to fill more than half of the total poverty gap. The Czech Republic and Slovenia in the remaining years, as well as the Slovak Republic together with Hungary in 2007 also spent relatively high amounts in comparison to their needs, covering between 25 and 49% of their respective national poverty gaps. In the remaining countries and years however, spending is far too low to make a meaningful contribution. For instance, the sum of all disbursed benefits in Estonia would have sufficed to fill between 5 and 12% of the total poverty gap, depending on year. Likewise, Latvia and Lithuania spend below 10% of what is needed to fill their total poverty gaps.

Table 4.4 Extensiveness and generosity of social assistance in Central and Eastern Europe- II

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Total SA spending† as % of the national poverty gap-60% line								
2003		11,73						
2004	50,54	6,20	57,61	11,42	9,82	12,13	51,53	45,51
2005	54,60	4,90	14,49	6,37	5,82	18,83	49,99	43,31
2006	49,42	2,96	17,27	5,76	6,92	19,27	46,85	35,02
2007	28,74	4,29	33,93	7,57	5,20	15,01	33,86	26,74
Total SA spending† as % of the national poverty gap-50% line								
2003		18,51						
2004	86,18	10,58	124,62	19,15	16,58	19,94	94,72	68,32
2005	96,73	8,84	25,88	11,42	10,11	33,75	92,78	73,75
2006	81,88	5,79	36,27	10,43	12,50	35,42	88,27	62,88
2007	51,94	8,61	67,52	13,52	9,39	28,06	65,23	46,15
Average benefit size-as % of poor households' budget (poor based on 60% median equivalised income)								
2003		34,41						
2004	27,87	27,39	12,44	17,81	26,80	15,49	26,91	48,13
2005	28,30	26,97	8,16	12,69	15,44	16,60	27,78	38,31
2006	32,19	22,42	6,86	9,34	15,95	16,83	26,43	34,35
2007	28,49	15,26	12,91	8,83	11,79	15,39	25,05	33,59
Average benefit size-as % of poor households' budget- (poor based on 50% median equivalised income)								
2003		37,00						
2004	33,90	30,66	15,53	24,44	30,74	18,23	34,12	53,24
2005	36,60	32,18	9,65	15,14	20,08	19,83	35,82	41,78

[115] Again, only spending on cash benefits is counted due to the information available in the dataset; administrative costs, as well as in-kind benefits (other than those related to housing) are disregarded;

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2006	39,07	28,79	7,52	10,38	21,09	19,71	33,23	37,22
2007	33,89	17,66	17,30	9,81	14,72	18,46	30,22	39,26

Note1: Total SA spending is computed by summing total household benefit payments at the country-year level
Note2: Indicators are computed at the household level, using household weights; figures refer to the year prior to the survey, i.e. 2003-2007
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional database;

In light of the results above, social assistance transfers could be considered largely trivial. However, if the total poverty gap is constructed based on the stricter 50% median equivalised line, the performance of the programs improves, sometimes considerably. Thus, during 2004 in Hungary, if no identification errors occurred, social assistance benefits would have successfully compensated for the entire shortfall in disposable income for every poor household. The Czech Republic and Slovenia (with the exception of 2007) would have also come very close to filling their respective total national gaps. Large spending levels relative to need are also registered in the Slovak Republic before 2007 and in Hungary and Slovenia during 2007 as total benefit outlays would have sufficed to bridge around two thirds of the poor's total income shortfall. At the opposite end, spending levels remain inadequate in the Baltic States and to a lesser extent in Poland and Hungary between 2005 and 2006, where the sums of all disbursed benefits cover only 6 to 35% of the respective total poverty gap.

Noticeably, the best performers during the 2004, the first year for which information is available, lost significant ground by the end of 2007, the last year observed. All four countries underwent drastic reductions in spending relative to need, as reductions range from 20 to 30 percentage points. Albeit far from conclusive, this pattern may be an indication that high social assistance disbursements may be unsustainable in the long run.

Examining the importance of the transfers in the budget of poor recipients, the case of the Slovak Republic stands out. Slovak social assistance payments make up about half of the disposable budget of the poor households that receive them. Means-tested transfers represent an important component of household resources for Czech, Slovenian poor households, as well as Estonian ones in 2003 and 2004, as benefits make up to 30% of the poor's disposable income. The lowest benefit importance for the client population is found in Hungary, where means-tested payments account for only 7-17% of the poor recipient households' budget.

Overall, social assistance schemes are a relatively small component of the larger welfare setup. Generally, they serve a small population, spend fairly little relative to existent needs and do not have a major impact on their clients' finances (see Table 4.4). Nevertheless, some divergence is clearly visible. Notably, the eight countries may be divided in two groups. The first group comprises Czech and Slovak Republics together with Slovenia. These countries have relatively extensive social assistance programs, serving a tenth or more of the population, with relatively

generous benefits. Total spending is high enough to theoretically be able to fill the larger part of their respective poverty gaps, while actually disbursed benefits are relatively important to those who receive them, constituting between a quarter and a half of their net disposable income. A wholly contrasting pattern is observable in Estonia, Lithuania, and to a lesser extent in Latvia, the countries forming the second group. All three Baltic States run small scale social assistance programs that reach only 2 to 10% of the population. Benefits are much stingier, while comprising less than 30% of the poor recipient households' budget. Spending levels are well below what would be needed to fill the total poverty gap. In between the two country clusters are Hungary and Poland. In both countries, extent/generosity indicators exhibit significant year to year fluctuation. The Hungarian social assistance is moving from a more generous and extensive scheme towards a more restricted and stringent, whereas the opposite development emerges in Poland. Depending on the indicator and year, each county is closer to one of the two country clusters described above.

Clearly, the distinction between the two groups of countries is much clearer in 2004 than in 2007, largely due to falling extensiveness/generosity occurring in the Czech and Slovak Republics, as well as Slovenia. In all three countries, receipt rates and total spending levels have declined precipitously. The less steep decline in benefit levels (both in absolute terms and as a percentage of household income suggests that reduction in total spending have been achieved mainly by moving people off benefit or refusing entry, rather than through less generous disbursements. The same declining pattern in number of client and total outlays is noticeable in Estonia. In the Estonian case however, relative benefit levels have declined as well.

Up to a certain point, the extent and generosity of the means test appears to be positively correlated to the general economic affluence. Thus, poorer countries such as the three Baltic States seriously under-spend when it comes to their social assistance, despite their high poverty rates and relatively deep poverty. Conversely, Slovenia and the Czech Republic, the richest countries in the sample, also operate the most extensive and generous schemes. However, the association is not unambiguous. Whereas the Slovak Republic and Hungary have similar GDP per capita levels[116], the former undoubtedly offers more and higher payments though its means-tested transfer framework (at least before 2007).

4.4.2 EFFECTIVENESS

The next dimension to look at is how successful social assistance schemes are in accomplishing their mission, i.e. how effective they are in reducing poverty. A total of eight indicators have been computed, each describing a different facet of effectiveness. The first task of a social assistance scheme is to identify who the needy are. Consequently, the first indicator of

[116] Measured in Purchasing Power Parities; based EUROSTAT figures http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb010;

effectiveness, termed coverage, looks at the share of the poor population[117] that receives social assistance transfers. Table 4.5 shows that the Central and East European performance in this respect is disappointing. Defining the poor population based on the higher at-risk-of-poverty threshold, only the Czech Republic is successful in handing out benefits to half or more of its needy population, and only prior to its 2007 reform. Again, the Baltic States have the most dismal record offering benefits through their social assistance schemes to less than a fifth of the poor. The remaining four countries reach between 25% and 46% of their poor population though means-tested transfers.

If the boundary of the poor population is pushed downwards by adopting a stricter definition of poverty, social assistance coverage improves in every country, although most substantially in the Czech and Slovak Republics and Slovenia. Between half and two thirds of the poor receive some social assistance payment in these countries. Coverage is low, averaging 15 to 20% in the three Baltic States and hovers around 30% in Poland and Hungary. Mirroring trends in benefit receipt and total spending, coverage levels drop significantly during 2007 in the Czech and Slovak Republics, Slovenia and Estonia, although in the latter case from a much lower base. The decline is especially visible when the poor are counted using the higher poverty line, suggesting that the withdrawal of support affected the near-poor to a greater extent than the very poor. Only Hungary experienced sustained and noteworthy yearly increases in its coverage rate, irrespective of how the target poor population is defined. In the remaining three countries, coverage levels have been fairly stagnant.

Table 4.5 Effectiveness of social assistance transfers in Central and Eastern Europe –I

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Coverage=% poor receiving SA benefits- (poor based on the 60% median equivalised income line)								
2003		16,23						
2004	56,81	13,33	29,34	17,84	13,36	27,67	46,64	45,75
2005	59,22	9,60	32,67	11,71	14,89	32,26	42,01	36,72
2006	55,36	6,81	33,88	13,38	14,99	31,24	43,99	32,16
2007	34,32	7,60	45,61	16,28	20,46	25,81	36,51	28,17
Coverage=% poor receiving SA benefits-(poor based on the 50% median equivalised income line)								
2003		23,09						
2004	68,02	18,46	31,18	17,41	15,86	29,60	51,27	56,86
2005	71,28	12,82	38,26	12,19	15,80	36,06	48,34	53,25
2006	68,97	9,13	37,80	15,06	15,99	34,71	53,07	48,38
2007	47,33	9,56	50,98	17,75	22,37	29,94	45,79	40,11
Total well-targeted SA† spending as % of the national poverty gap-based on the 60% median								

[117] The share of the poor population receiving transfers is computed relative to those poor before social assistance payments;

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
equivalent income line								
2003		6,34						
2004	35,47	4,69	9,87	3,84	6,33	6,32	24,92	32,46
2005	38,42	3,93	5,53	2,27	3,63	10,59	24,48	25,98
2006	38,05	2,02	6,01	2,40	4,06	11,18	24,84	23,67
2007	22,56	1,87	15,76	2,99	3,42	9,08	19,75	18,93
Total well-targeted SA† spending as % of the national poverty gap--based on the 50% median equivalent income line								
2003		9,08						
2004	49,79	6,58	15,10	4,44	8,80	8,04	35,48	43,89
2005	54,27	6,26	6,90	2,58	4,13	14,59	35,57	39,76
2006	54,45	3,43	8,58	3,17	5,93	15,35	36,70	34,49
2007	34,74	2,92	22,53	4,32	4,99	13,01	29,17	26,59

Note: Coverage has been computed at the individual level, using personal weights; targeted SA spending relative to total gap has been computed using household data and weights; figures refer to the year prior to the survey, i.e. 2003-2007
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional dataset;

The previous section has presented data on expenditure amounts relative to needs. Yet, some of the sums spent unavoidably leak to the non-poor (a more thorough analysis on leakage follows in the next section). As a result, not all the resources of the program reach those who truly need them. To illustrate how much resources are *actually* made available to the poor, the well-targeted amounts of spending per poor person, and as a share of the poverty gap have been computed (figures are shown in Table 4.5). Targeted amounts are obtained by subtracting from overall payments the disbursements made to the non-poor as well as payments made to the poor that are in excess of bringing them above the poverty line.

As expected, correctly targeted social assistance spending constitutes a much smaller share of the total poverty gap compared to total spending. When the poverty gap is constructed based on the 60% median equivalised income threshold, five of the eight countries actually fill less than 10% (or in some years a little over 10%) of their overall poverty gap through social assistance transfers. Only in three countries, namely in Slovenia together with the Czech and Slovak Republics, do social assistance disbursements make a noteworthy contribution to filling the poverty gap.

Using the second, lower poverty line, the percentage of the poverty gap actually filled by means-tested social transfers increases somewhat. The best performance in this case is achieved by the Czech Republic, as between a third and a half of the initial total gap is closed by social assistance disbursements. Slovenia and the Slovak Republic also score relatively high on this indicator. Their social assistance schemes eliminate around 25 to 40% of the initial total poverty gap. The picture is much bleaker in the remaining countries. Figures indicate that the direst

situation is to be found in the three Baltic States throughout the entire period and Poland in 2004. Virtually no meaningful contribution to poverty reduction through means-tested transfers can be detected in these case, since less than 10% (and sometimes as little as 3 %) of the initial poverty gap is closed by well targeted social assistance spending. Although not as low, correctly channelled spending is woefully inadequate in Hungary and Poland during 2005 and 2006, as well. In addition, despite above average performance, the ability of social assistance programs to close the total national poverty gap has weakened in the top three performing countries, between 2004 and 2007.

Table 4.6: Effectiveness of social assistance in Central and Eastern Europe-II

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Average % reduction in the poverty rate-total population- (poor defined on the 60% median equivalised income line)								
2003		1,35						
2004	11,44	1,20	5,76	2,72	1,31	3,11	12,73	5,73
2005	14,97	0,77	3,35	1,28	2,14	4,09	12,69	5,15
2006	10,20	0,34	3,45	1,53	0,67	4,92	10,29	6,76
2007	4,56	0,56	7,28	1,18	1,05	3,75	7,27	5,73
Average % reduction in the poverty rate-total population-(poor defined on the 50% median equivalised income line)								
2003		1,90						
2004	26,35	2,05	6,21	1,06	3,29	3,25	16,95	13,95
2005	25,62	1,53	4,65	2,60	3,17	6,63	15,11	8,74
2006	25,39	0,31	5,31	1,86	1,93	7,76	18,52	15,78
2007	13,55	2,15	12,72	2,16	3,08	6,33	16,84	9,94
Average % reduction in the poverty rate-SA recipients- (poor defined on the 60% median equivalised income line)								
2003		8,31						
2004	20,13	8,99	19,64	15,26	9,83	11,24	27,30	12,52
2005	25,28	8,06	10,25	10,93	14,37	12,68	30,20	14,03
2006	18,42	4,96	10,18	11,43	4,47	15,76	23,38	21,04
2007	13,29	7,37	15,95	7,24	5,15	14,53	19,90	20,34
Average % reduction in the poverty rate-SA recipients- (poor defined on the 50% median equivalised income line)								
2003		8,22						
2004	38,74	11,12	19,92	6,10	20,73	10,98	33,07	24,54
2005	35,94	11,94	12,16	21,34	20,07	18,40	31,26	16,41
2006	36,81	3,40	14,04	12,37	12,06	22,37	34,90	32,61
2007	28,62	22,50	24,95	12,17	13,76	21,15	36,77	24,78
Average % reduction in the poverty gap- total population- (poor defined on the 60% median equivalised income line)								
2003		4,90						
2004	31,44	4,30	12,60	6,50	6,02	8,21	28,05	23,64

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2005	33,43	2,95	9,43	3,48	5,30	11,44	25,61	17,62
2006	31,42	1,75	10,14	3,71	10,14	12,55	24,65	17,40
2007	16,03	2,31	19,57	3,99	4,37	9,99	19,82	14,67
Average % reduction in the poverty gap- total population- (poor defined on the 50% median equivalised income line)								
2003		30,19						
2004	55,35	32,25	42,93	36,42	45,08	29,65	60,14	51,68
2005	56,44	30,69	28,87	29,74	35,61	35,45	60,96	47,97
2006	56,75	25,65	29,93	27,71	28,45	40,16	56,04	54,12
2007	46,69	30,39	42,92	24,53	21,38	38,72	54,29	52,09
Average % reduction in the poverty gap- SA recipients- (poor defined on the 60% median equivalised income line)								
2003		8,73						
2004	48,82	6,75	15,20	4,84	8,32	9,71	35,38	35,17
2005	49,90	5,14	12,92	5,09	6,43	15,60	32,57	29,37
2006	49,77	2,46	16,35	4,86	6,93	16,81	36,06	54,12
2007	28,51	3,98	27,51	5,70	7,21	15,06	30,72	31,40
Average % reduction in the poverty gap- SA recipients- (poor defined on the 50% median equivalised income line)								
2003		37,83						
2004	71,78	36,58	48,76	27,82	52,47	32,80	69,01	61,86
2005	70,00	40,10	33,78	41,72	40,69	43,26	67,38	55,16
2006	72,16	26,92	43,25	32,26	43,35	48,44	67,95	64,91
2008	60,23	41,63	53,97	32,12	32,25	50,31	67,08	58,07
Average % reduction in the Gini coefficient- SA recipients								
2003		7,50						
2004	26,65	14,93	5,14	5,46	18,40	7,49	17,89	24,05
2005	27,85	16,44	3,89	3,36	8,54	10,34	15,17	21,24
2006	32,04	9,88	3,63	3,67	9,47	11,72	16,98	22,97
2007	25,57	5,77	8,69	2,38	7,19	10,77	16,74	23,35

Note: Figures are computed at the individual level using personal weights; figures refer to the year prior to the survey, i.e. 2003-2007.
Source: own calculations based on EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional database;

A clear test of how successful social assistance schemes are in reaching their ultimate goal is their ability to bring the poor over the poverty line. Table 4.6 presents the results of precisely this type of test, even if a coarse one. It gives information on the relative reduction of both the headcount rate and the poverty gap achieved through means-tested social transfers. As usual, the reduction is computed assuming first a higher 60% median equivalised income line and then the lower half median equivalised income one. Additionally, since previous analysis has shown

coverage levels to be very low, the proportional reduction has been computed both for the entire population and separately for program clients only.

Looking at the overall ability of means-tested transfers to lift the poor over the poverty line, the performance of all eight social assistance schemes is indeed unsatisfactory. When the poor population is defined in a broader way, only the Czech Republic and Slovenia between 2004 and 2006 are successful in pulling 10% or more of the individuals in need above the poverty threshold. The Slovak Republic and Hungary achieve around 4-7% reduction scores, whereas the performance of the remaining countries is indeed dismal. Less than 5% (and sometimes less than 1%) of those defined as poor before transfer receive sufficiently high means tested transfers to bring their disposable income above the poverty line.

To some degree, the inability of means-tested transfers to achieve significant poverty reduction is unsurprising, given the relatively high chosen poverty line. In fact, since, as a rule, national official poverty definitions are well below the EUROSTAT at-risk-of-poverty boundary, more illuminating results might be obtained by drawing on a more stringent poverty definition. Indeed, when a narrower view of poverty is taken, the ability of social assistance transfers improves significantly, but only the Czech Republic, Slovenia and the Slovak Republic where the achieved poverty reduction increase from about one tenth to about one fifth in the first two countries, and from about 5% to 15% in the third. In the remaining five countries, decreases in the poverty rate attributable to social assistance remain very low, on average below 5-6%. Yet, even in the three better performing countries, the capacity of social assistance transfers to reduce the poverty headcount index diminishes severely, reflecting decreased coverage and total outlays. For example, the effectiveness of the Czech program declines from about 10% in 2004 to 4% in 2007, effectively bringing it in line with the effectiveness of the Hungarian and Polish programs. The effectiveness decline is steeper though when gauged using the higher poverty threshold, again suggesting that the near-poor are being pushed off-support.

Another measure looks at a scheme's poverty reducing effectiveness, independently of its being able to minimize exclusion errors. If social assistance schemes would be able to reach *all* of the needy, how big would their impact be? The answer is that "perfect" targeting (in the sense of no exclusion errors) would make the impact of social assistance considerably heftier compared to the actual situation, but the results would still be very weak. Using the higher poverty line, the best performance is registered in Slovenia where a fifth to a third of the client population is brought above the poverty line by social assistance transfers. Relatively good results are attained by the Czech Hungarian, and Slovak social assistance programs. Average poverty reduction rates among the recipients reach 5-15%, depending on year in the remaining countries.

Redoing the analysis based on the lower poverty definition yields similar country rankings. The best results are achieved in the Czech Republic and Slovenia where about 30-35% of the poor clients manage to climb out of poverty due to the transfers. Slightly less effective, the Slovak program pulls around 25% of its poor clients out of poverty. The lowest likelihood of exiting poverty through means-tested social assistance is registered in Estonia and Latvia during

2003-2004. In the remaining country-years, poverty reduction rates among the client population hover close to 20%. Notably, in contrast to declining poverty reduction effectiveness in the total population, program ability to bring participants over the poverty threshold remains relatively stable (exceptions are Estonia and Poland where the headcount index reduction among social assistance clients increased significantly from 2003 to 2007).

Thus, the targeting system can only partly explain the poor showing of Central European social assistance systems in terms of reducing poverty. Another explanation might be that the sums awarded are simply too small to lift recipients over the poverty line[118]. To investigate this possibility further, I take a closer look at the poverty gap.

Similarly to the headcount index measure, I compute the mean poverty gap separately for two groups, i.e. the total population and benefit recipients and separately for the two poverty lines. The underlying reasons are the same as in the case of the headcount index, namely to evaluate impact of social assistance allowance independently of targeting efficiency. The figures for the reduction of the mean poverty gap computed for the total population closely parallel those for the reduction of headcount index. Put differently, systems that manage to lift a higher number of the poor above the poverty line are also more successful in closing a higher portion of the mean poverty gap. Slovenia and the Czech Republic achieve the highest average poverty gap reduction rates, around 25-30% when the higher poverty line is used and between 50 and 60% when the gap is computed based on the lower line. The worst performing schemes are to be found in Estonia and Latvia, irrespective of how poverty is defined. Finally, the downward trend in program anti-poverty effectiveness in the Czech Republic, Estonia, Slovenia and the Slovak Republic pinpointed by trends in the headcount index reduction rates is confirmed. Poverty gap reduction (at the 60% median equivalised income) in the total population is almost halved in the Czech Republic and Estonia, whereas in the other two countries it decreases by about 30%. Although occasionally improvements in the ability of programs to alleviate poverty do occur, performance increases are usually small and seldom sustained during subsequent years.

When looking at poverty gap reduction, computed only for benefit recipients, the Slovenian, Slovak and Czech social assistance schemes emerge as the best performers. On average they close around 30-70%, depending on the year and on the definition of the poverty line. The remaining five countries succeed in eliminating around 5-50% of their recipient population's poverty gap. More interestingly, although all social assistance programs are more effective in reducing the poverty gap of their poorer clients (compare figures based on the lower and higher poverty lines), the difference is relatively small especially in Hungary and Latvia, but also in Poland and Lithuania. This patterns suggests that in these countries, transfers tend to go as much to the near-poor as to the very poor. On the contrary, in the Czech Republic, Slovenia, and the Slovak Republic, the indicators suggest a heavier focus of transfers on the very poor.

[118] This explanation is all the more plausible if one considers that some of the countries have considerable lower thresholds that the one used here to define poverty; hence these countries would consider ineligible for aid some of the individuals labeled as "poor" by my definition and would award much smaller benefits to the rest;

Mirroring trends reflected by the corresponding headcount reduction indicators, the percentage decrease in the poverty gap achieved by means-tested transfer is relatively constant in time.

Cross-national differences in effectiveness are much larger when referring to the total population than when computed for participants only, both in the case of the headcount index and in that of the poverty gap. Targeting effectiveness is thus a major fault line differentiating among countries. Interestingly, countries with lower targeting performance (as measured by the differences in indicators computed for the entire population and for program clients only), are also less able to achieve significant poverty reduction among the poor that they do reach. Thus, poor targeting and meagre benefits seem to be associated. One possible explanation is targeting mechanisms. By setting benefits at a very low level, some countries are effectively relying on self-targeting to allocate resources. Such a mechanism though seems to be highly ineffectual in combating income poverty.

By and large, countries that have been able to more effectively reduce the poverty rate, also managed to fill a larger portion of the poverty gap. Nonetheless, the parallelism is not perfect. In particular, the Slovak Republic and Estonia during the first two years have discrepancies between the reduction in the headcount index and the mean gap that strongly favour the latter. This would seem to suggest that they direct the bulk of the resources towards the very poor, thus closing a considerable portion of the mean gap while failing to bring recipients over the poverty line. The reverse situation is present in particular in Latvia, but also Hungary. Here it seems that social assistance schemes might be plagued by a possible "creaming" effect, i.e. resources are directed towards those immediately under the poverty line, bringing them above it but failing to reach the very poor.

To better investigate this last characteristic, namely the propensity of a social assistance to "cream" (i.e. to concentrate on the clients that are more easily handled and ignore those with more "expensive" needs), the last effectiveness indicator checks whether the program disburses larger amounts of financial support to the very poor. Arguably, "creaming" would be best exposed by a qualitative study. However, a rough approximation may be obtained by looking at the progressivity of social assistance transfers. As such, the last effectiveness indicator illustrates by how much social assistance transfers have reduced inequality (as measured by the Gini coefficient) among recipients. Two countries stand out. The Hungarian and Latvian systems are visibly less progressive than in the remaining countries. The Gini reduction in these countries is kept well within a one-digit range. Conversely, the Czech and Slovak means-tested transfer schemes are most pro-poor focused, reducing income inequality among program participants by about a fifth.

Summing up, social assistance program in the eight Central European countries under investigation are clearly not very successful in dealing with poverty. Their effectiveness is vastly hampered by (very) low coverage, but inability to reach the poor is obviously not the only problem. The low amount of resources countries actually make available to the poor, as well as potential "creaming" also contribute to reduced performance.

4.4.3 EFFICIENCY

Last but not least, social assistance schemes achieve their results at very different costs to the public budget. To assess how efficient the various systems are, four indicators have been constructed. The first one, leakage, looks at the extensiveness of inclusion errors, i.e. how many of the recipients are non income poor before receiving the benefit. Table 4.7 shows that inclusion errors are indeed common throughout all of the eight Central European countries included in the study. Precise country rankings depend on whether individuals in households with equivalised income between 50% and 60% of the median are considered to be poor or not. The most efficient program, the Estonian scheme in 2003, still directs around a 30-40% (depending on which poverty line is chosen) of its transfers to the non-poor. Somewhat surprisingly, the Estonian scheme gradually becomes less successful at keeping the non-poor out of the program, at the same time as coverage, receipt rates and relative benefit generosity decline as well. The least efficient programs are the Hungarian, Slovenian and Latvian ones. Even when using the higher poverty threshold, these three countries consistently award 60% or more of their transfers to the clients that are not poor. If the lower poverty line is used, social assistance programs in almost every country leak half of the disbursements to non-poor recipients.

Table 4.7 Efficiency of social assistance programs in Central and Eastern Europe

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Leakage=% non-poor recipients-(poor defined based on the 60% median equivalised income line)								
2003		33,97						
2004	45,27	36,79	74,48	67,46	54,76	47,48	62,83	53,85
2005	42,35	33,00	59,56	62,68	44,48	44,99	64,57	43,93
2006	38,77	34,03	62,78	60,94	48,59	42,65	63,77	48,98
2007	37,53	48,89	66,22	54,47	30,18	44,37	61,96	37,29
Leakage=% non-poor recipients- poor defined based on the 50% median equivalised income line)								
2003		40,91						
2004	58,45	45,74	84,16	80,23	62,60	61,14	75,11	59,68
2005	60,17	46,46	70,84	72,62	62,56	59,96	76,44	50,98
2006	52,60	51,03	74,77	70,00	64,02	58,14	74,16	56,10
2007	50,51	61,44	79,26	63,58	46,41	59,75	71,31	50,61
Total well targeted SA† spending- as % of total SA spending†- poor defined based on the 60% median equivalised income line)								
2003		54,07						
2004	70,18	75,59	17,12	33,64	64,43	52,09	48,36	71,31
2005	70,36	80,17	38,16	35,57	62,45	56,25	48,98	59,98
2006	77,00	68,19	34,82	41,61	58,71	58,01	53,01	67,60

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2007	78,50	43,49	46,43	39,46	65,76	60,51	58,31	70,77
Total well targeted SA† spending- as % of total SA spending‡ poor defined based on the 50% median equivalised income line)								
2003		49,07						
2004	57,78	62,22	12,12	23,19	53,07	40,33	37,45	64,24
2005	56,11	70,83	26,68	22,58	40,80	43,21	38,34	53,91
2006	66,50	59,24	23,66	30,39	47,45	43,35	41,57	54,85
2007	66,88	33,94	33,38	31,98	53,10	46,38	44,72	57,63

Note: Leakage is computed at the individual level, using personal weights; percent well targeted social assistance is computed using household data and household weights; figures refer to the year prior to the survey, i.e. 2003-2007.
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional database;

The very high leakage figures are indeed surprising, especially if one considers them in conjunction with the low coverage performance (see figures in Table 4.4 and Table 4.7). Therefore, the low number of poor covered by social assistance is not only an artificial result of setting a poverty line that is rather high and probably well-above national measures. Yet, it might be that all the non-poor served by these programs receive tiny amounts, and thus the bulk of the resources go to those in a disadvantaged economic situation. However, the next indicator, which computes the percentage of the total social assistance expenditure that goes to the poor[119], shows that this is not the case. Again, the Latvian, Hungarian social assistance schemes emerge as highly wasteful. They channel well below half (and in some years as little as 17%) of the program transfer resources on payments that do contribute to filling the poverty gap, even when allowing for poverty to be defined in the more liberal way. Naturally, when a stricter definition of poverty is adopted, efficiency declines. The Czech Republic, the Slovak Republic and Estonia before 2007 "waste" the least on the non-poor and overflow. Efficiency increased in the Czech Republic, Hungary and to a lesser extent in Latvia. The share of the disbursed sums funnelled towards addressing the income shortfall the genuinely income poor rose by between 8 and 20 percentage points in these countries, although in the latter two from a very low base. Unsurprisingly, countries with high leakage in terms of clients served also have high leakage in terms of the amounts spent. Slovenia is somewhat of an exception, as its program is much closer in performance to the more efficient countries when the percent well targeted transfers rather than leakage is used as an indicator of performance.

Along with being ineffective, European social assistance schemes are not very efficient either. In particular, the programs serve more non-poor than poor and often direct their funding towards households that are not in material distress. Inefficiency characterizes both the richest

[119] In fact, well targeted expenditure is considered to be only expenditure filling the poverty gap; thus non-targeted expenditure is composed by benefits paid out to the non-poor as well as benefits paid out to the poor that are in excess of bringing them above the poverty line;

(Slovenia) and the poorest countries in the sample (Lithuania). Similarly, inefficiency does not seem to be related to effectiveness. For instance, Estonia had in 2003 and 2004 a comparatively efficient social assistance program, spending less on the non-poor while at the same time achieving very low poverty reduction scores. Yet, its efficiency scores deteriorated at the same time as the program became even less effective in shrinking poverty. Contrarily, Slovenia is relatively effective in reducing poverty through its means-tested transfers while simultaneously spending the bulk of its transfers on those already above the poverty line. Some countries, such as Latvia, are both ineffective and inefficient.

4.5 SOCIAL ASSISTANCE PERFORMANCE ACROSS FAMILY TYPES

The previous analyses and discussions have been directed at the general population, without differentiating according to household characteristics. Nevertheless, eligibility rules encompassed in means-tested benefits, almost without exception take into account some household circumstances, such as the age of its members, the number of persons in the household (by establishing more or less generous equivalence scales), or the combination of adults and children (for example, single parent and families with 3 or more children may benefit from a more generous treatment). Programs that can be stingy and/or demanding with some types of clients may be generous and liberal with others. To illuminate this point, some of the indicators presented above have been computed separately for six family types. These types have been chosen both to incorporate household characteristics that are known to be correlates of an increased poverty risk (such as, for example, increased dependency ratios), and to be relatively common in the wider population. However, despite the second criterion, in some instances (i.e. country-year-family type groups), the number of cases on which the figures are computed are indeed very small. This problem becomes particularly acute when social assistance receipt rates are low within a certain family type. That being said, the six household types are: couple with two children, single person aged under 65, single person aged 65 and over, couple with three or more children, single parent family living alone, and single parent family living together with other adults. So as to keep the discussion simple, only one definition of poverty will be used, namely having a disposable equivalised household income below half of the median.

4.5.1 HOW DOES VULNERABILITY VARY ACROSS FAMILY TYPES?

Table 4.8 below presents poverty rates for the six family types across countries and across time. Not surprisingly, countries rank similarly irrespective of family type, i.e. countries where poverty levels are low are so across the board and conversely, where poverty is high, it is so for all household types. Couples with two children are the least vulnerable to the risk of poverty in every country. Moreover, with the exception of Latvia and Slovenia, poverty rates

declined for this group in every country. However, important cross-national differences remain. For example, couples with two children are more than twice as likely to be poor in Poland compared to the Czech Republic, Estonia or Slovenia.

Somewhat unexpectedly, with the exception of Poland and the Slovak Republic, poverty rates are very high (and in some cases, the highest) for working age adults living alone (see Table 4.8). The three Baltic States together with Slovenia exhibit the highest poverty rates for this type of household.

Table 4.8 Poverty rates across different types of families in Central and Eastern Europe

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004		8,13						
2005	5,22	5,41	6,63	8,45	13,04	16,03	4,38	13,63
2006	5,75	5,83	10,21	13,35	10,2	14,46	4,62	7,76
2007	3,13	6,03	9,81	6,42	9,94	12,63	3,93	7,47
2008	4,7	5,1	8,8	12,93	9,5	11,31	4,41	5,67
Single person aged <65								
2004		24,31						
2005	13,37	21,67	18,37	24,4	26,58	19	34,94	12,69
2006	12,79	20,68	16,83	32,28	22,71	17,3	31,87	9,87
2007	8,91	22,64	19,1	35,69	27,91	16,4	26,78	10,39
2008	12,08	22,45	15,42	32,65	29	17,99	24,64	10,59
Single person aged >=65								
2004		7,89						
2005	2,35	11,07	4,61	6,27	11,64	3,08	30,53	2,54
2006	3,15	16,12	5,99	35,13	12,38	2,57	24,03	4,67
2007	3,13	19,24	4,78	55,5	25,93	2,68	26,9	5,05
2008	3,24	35,71	3,01	72,72	34,48	6,56	22,68	5,65
Couple with 3 or more children								
2004		19,63						
2005	6,2	17,27	19,03	18,87	29,41	34,28	9,36	16,22
2006	20,74	14,43	20,73	33,5	24,06	28,76	11,7	19,17
2007	15,29	9,63	21,69	28,55	18,96	25,74	11,52	15,37
2008	9,93	10,2	13,59	24,44	38,8	21,6	6,26	20,1
Single parent family living alone								
2004		28,88						
2005	25,09	27,98	19,54	28,4	32,45	33,17	18,05	13,44
2006	24,74	29,13	27,78	25,47	25,29	22,74	15,97	27,22
2007	24,78	27,63	19,79	28,69	22,93	25,9	13,35	24,79
2008	26,13	28,25	18,9	26,35	36,39	22,16	14,24	15,04
Single parent living with other adults								
2004		13,18						
2005	9,94	11,1	9,96	14,19	21,87	21,11	5,19	12,72
2006	7,87	13,52	9,96	17,15	17,83	20,4	4,82	10,98
2007	9,71	12,44	10,43	14,84	16,44	18,31	4,68	9,23
2008	8,64	12,59	9,26	17,71	19,55	16,92	4,02	9,25

Note 1: single parenthood is based on cohabitation and not on formal marriage; figures refer to the year prior to the survey, i.e. 2003-2007.
Note2: figures are computed at the individual level, using personal weights.
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC cross-sectional databases.

Older persons are probably one of the best deprivation insulated groups in Western Europe, largely thanks to generous pension provisions. In Central Europe as well, pension systems are a well-developed component of the social protection system, not least as a result of social program construction during the communist era (see chapter 2). However, pensioners living alone are often women who were less likely to accumulate full pension rights and were likely to retire from less well-paid jobs. As a result, single person pensioner households may be prone to a higher than average poverty risk. This hypothesis is however rejected by the data in the Czech and Slovak Republics, Hungary, and Poland, where single person pensioner households have very low poverty risks in every year for which data is available. Much higher poverty rates are registered for this group Slovenia and Latvia[120], as well as Lithuania and Estonia during 2007.

The unfavourable dependency ratio, as well as potential child-care costs makes large families with many children vulnerable to the risk of material deprivation. Indeed, poverty rates for this family type are above average in all countries and for all years. Despite an extensive and complex web of family benefits[121], around one fifth of large families fall into poverty in Hungary. Poverty risks for this group are even higher in Latvia, Lithuania and Poland, where between 20 and 30% of individuals living in this type of household experience income poverty. Another family type potentially plagued by dependency and child-care concerns is the lone parent household. To be sure, despite special support made available in some countries, poverty rates are very high for single parents living by themselves, even higher than for large families. In the three Baltic States and in Poland, no less than a third of adults in this group find themselves with an equivalised income below half median in almost every year observed. The situation is not much better in the remaining countries either. Even in the country with the lowest risk, Slovenia, between 13 and 18% of lone parents fall into poverty. However, single parents stand a much higher chance of escaping poverty when they share a household with other adults[122], albeit poverty rates remain slightly above average. Again, households containing single parents and other adults are most vulnerable to material deprivation in Lithuania and Poland. Quite the

[120] A very steep yearly increase in the risk of poverty for single persons aged 65 or over is observable in Latvia; it is not clear what drives this trend; the yearly differences are so high that almost indubitably they are at least partly a statistical artifact; however, the rising poverty risk trend is probably true to reality.
[121] See European Commission, D. E., Social Affaires and Equal Opportunities (2010). Mutual Information System on Social Protection Database, European Commission;
http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en.
[122] Since I explicitly excluded cohabiting partners, the other adults are probably members of the extended family.

contrary, they are relatively well protected particularly in Slovenia, but also in the Czech and Slovak Republics.

Not only the extent of poverty, but also its severity varies across family types both within and across countries. Poverty is deep in all households containing children, a worrisome finding. With the exception of couples with two children in the Czech Republic and Slovenia, the average income shortfall surpasses 20%. Countries experiencing extensive poverty are also the ones where poverty is more severe. Couples with two children experience particularly high poverty gaps in the three Baltic States, Poland, but also in Slovakia. In fact, relative to other household types couples with two children are in a particularly disadvantaged situation in the Slovak Republic. Incomes are most inadequate for large families and single parents living alone. The one exception to this pattern is Hungary, where both groups find themselves significantly closer to the poverty threshold. It is possible that the extensive Hungarian family benefit system while not being able to push them above the poverty line, nonetheless is successful in preventing the worst forms of economic deprivation among these two family types.

Table 4.9 Poverty gap levels across different family types

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004		41,17						
2005	18,16	73,29	19,82	27,18	24,55	33,39	15,01	35,28
2006	12,83	28,83	31,42	32,79	32	32,98	18,38	24,84
2007	9,67	25,03	14,01	33,81	35,56	34,43	26,12	27,47
2008	19,96	36,12	21,81	28,92	32,32	37,23	19,6	42,56
Single person aged <65								
2004		62,45						
2005	29,24	50,57	25,29	52,62	50,79	53,22	32,11	34,64
2006	26,45	44,5	38,97	45,63	46,25	38,4	34,67	34,6
2007	28,11	41,31	41,51	46,21	45,22	31,07	34,69	34,37
2008	30,13	45,18	35,47	45,93	51,06	41,49	34,08	41,28
Single person aged >=65								
2004		27,14						
2005	11,25	14,2	12,77	15,96	13,35	54,95	20,77	11,21
2006	9,31	16,16	20,67	8,16	17,82	23,63	20,48	13,2
2007	9	13,25	18,71	14,15	16,14	15,63	19,46	14,96
2008	11,28	10,08	23,82	23,98	12,54	12,47	17,36	13,17
Couple with 3 or more children								
2004		33,65						
2005	20,06	24,79	16,52	49,29	32,36	38,56	21,51	39,15
2006	25,57	26,55	22,56	32,26	28,9	30,72	14,22	20,39
2007	27,19	34,04	17,82	36,97	30,37	28,35	19,5	24,4
2008	21,33	17,92	16,71	36,99	33,16	31,14	12,86	29,64
Single parent family living alone								
2004		36,53						
2005	25,28	34,57	22,59	32,37	32,07	39,9	30,83	25,52
2006	24,67	36,74	29,83	37,94	45	36,86	28,1	25,55

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2007	25,89	30,22	24,38	38,52	34,73	26,59	22,49	35,89
2008	36,68	23,61	27,09	33,55	36,41	29,99	28,67	29,92
Single parent living with other adults								
2004		31,19						
2005	19,79	33,08	18,49	27,9	32,36	32,23	20,2	20,05
2006	22,29	32,72	31,65	34,38	27,69	28,37	20,29	25,86
2007	23,09	24,49	22,26	32,61	31,28	27,78	23,18	28,17
2008	23,33	28,63	22,08	27,91	26,35	25,05	19	28,82

Note1: Single parenthood based on cohabitation and not on formal marriage;
Note2: Figures computed at the individual level, using personal weights; figures refer to the year prior to the survey, i.e. 2003-2007
Source: own calculations using the EU-SILC 2007 longitudinal database and the EU-SILC 2008 cross-sectional database;

Deep poverty is especially prevalent among single working age adults. In some cases, their average poverty gap may exceed 60% and is never and nowhere less than 20%. Conversely, with the exception of Poland in 2004, single person pensioner households are the household type most likely to be exposed to shallow rather than deep poverty. Finally, although sharing living arrangements with other adults improves somewhat the economic resources of poor lone parents, poverty gaps for the two groups are remarkably similar.

4.5.2 Receipt and Size of Social Assistance Benefits According to Family Characteristics

Next, Table 4.10 illustrates the prevalence of social assistance receipt across the six family types. Notwithstanding Latvia and Lithuania, single person pensioner households are least likely to be in receipt of means-tested benefits. The low participation rates of this group correspond to the lower than average poverty rates and poverty gaps, suggesting that other social programs, notably the national pension schemes are relatively successful in preventing material deprivation among the elderly. To the contrary, in Latvia and Lithuania, single person pensioner households are, among the six household types, most likely to receive means-tested transfers. In addition to the potential inadequacy of pensions, this pattern also points to possible divides between the deserving and the non-deserving poor in these two countries.

Unsurprisingly, among families with children, couples with two children are least likely to obtain means-tested income support. Only in the Czech Republic and Poland do these households have a slightly higher than average probability of receiving social assistance payments. Conversely, both large families and single parent families living without other adults have a much higher likelihood of income support receipt. Despite facing an only somewhat lower poverty risk, households containing single parents and other adults are much less likely to be social assistance clients in all countries, with the possible exception of Latvia where receipt

rates are low for both groups. The discrepancy raises issues of deservingness and subsidiarity in the operation of social assistance programs in the central region of Europe.

Table 4.10 Social assistance receipt rates across different family types in Central and Eastern Europe

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004		1,43						
2005	16,12	1,22	13,19	9,21	5,29	11,57	10,06	8,92
2006	14,59	0,53	10,94	5,14	2,44	12,75	9,21	5,86
2007	8,25	0,54	10,22	7,95	3,03	10,5	7,16	6,22
2008	6,12	1,01	18,76	10,02	3,38	8,22	3,85	2,29
Single person aged <65								
2004		13,53						
2005	8,94	3,4	11,78	9,81	9,14	10,99	16,34	15,07
2006	8,94	5,47	14,47	8,5	8,97	11,31	17,41	9,85
2007	8,17	2,42	7,77	7,35	7,75	12,32	13,06	7,99
2008	6,11	2,76	12,44	10,56	8,38	10,49	12,44	5,72
Single person aged >=65								
2004		0,6						
2005	2,98	0,9	14,36	25,65	20,24	4,08	2,45	4,67
2006	3,83	3,13	14,11	22,13	17,91	5,04	6,8	3,42
2007	2,74	1,78	9,15	19,38	18,06	5,82	6,97	3,13
2008	1,97	3,06	14,33	27,51	20,06	4,5	4,12	2,84
Couple with 3 or more children								
2004		12,84						
2005	36,76	16,43	24,46	34,82	8,66	26,85	22,78	26,01
2006	42,7	2,51	26,45	17,3	4,98	27,53	18,61	9,72
2007	31,62	0,6	31,62	16,56	18,63	23,93	16,41	7,81
2008	12,17	4,43	36,01	15,85	22,71	21,37	15,06	5,38
Single parent family living alone								
2004		19,46						
2005	38,2	15,83	35,57	12,65	16,35	24,61	27,1	50,89
2006	38,06	11,04	18,98	10,82	17,67	29,99	19,21	19,2
2007	40,91	8,99	25,7	14,59	14,01	24,76	22,49	10,11
2008	31,63	7,52	33,49	14,92	14,78	24,88	23,91	6,77
Single parent living with other adults								
2004		4,22						
2005	23,77	5,13	22,94	10,34	7,94	16,77	23,91	21,44
2006	21,01	4,42	19,18	5,64	8,61	16,8	21,47	10,95
2007	17,58	2,14	16,48	7,46	7,26	16,37	22,39	13,03
2008	7,94	5,17	27,67	10,17	7,5	14,5	17,13	9,91

Note 1: single parenthood based on cohabitation and not on formal marriage;
Note 2: figures computed at the individual level, using personal weights; figures refer to the year prior to the survey, i.e. 2003-2007
Source: own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional database;

The embedded nature of deservingness and dependency concerns becomes most visible in the case of single working-age adults. The previous tables (Table 4.8 and 4.9) have shown that working-age adults living alone are exposed to an elevated risk of poverty (and especially deep poverty) in all of the eight CEE countries. Nevertheless, despite their higher than average vulnerability, receipt of means-tested transfers is narrow among this group, not exceeding the average for the entire population.

Whereas considerable cross-national convergence can be observed when examining average disbursed benefits in the general population, the same is not true for every type of family. In fact, there are striking differences in the average received benefit (equivalised for household size) among the six family types within the same country. In the Czech Republic and Slovenia, the social assistance system is most generous towards single working age adults, and least generous towards single person pensioner households[123]. Single parents, especially when living alone, together with couples with two children, also receive relatively high average benefits. The Slovenian income support program also pays out relatively large amounts to couples with three or more children.

Table 4.11 Average yearly social assistance payments (equivalised for household size; in Euros)

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004		44,59						
2005	328,473	86,11	195,507	62,709	153,404	145,909	761,139	435,851
2006	370,959	298,584	130,841	68,901	281,952	158,98	833,138	632,342
2007	409,651	131,292	106,547	181,722	53,595	215,701	677,472	420,301
2008	498,438	684,703	169,405	144,955	123,963	201,079	750,356	800,243
Single person aged <65								
2004		314,17						
2005	928,058	310,682	273,878	152,356	87,445	277,529	1248,071	598,985
2006	969,769	331,707	147,574	175,141	106,123	467,802	1554,786	734,888
2007	924,276	343,106	168,129	189,711	135,603	435,508	1367,815	765,229
2008	1101,954	512,457	270,9	415,132	138,48	583,14	1354,94	922,138
Single person aged >=65								
2004		379,4						
2005	152,494	31,96	214,825	82,16	62,054	215,675	151,479	275,792
2006	137,477	64,75	122,667	91,038	83,843	251,089	270,216	582,014
2007	183,401	88,129	110,223	127,168	95,484	320,25	116,176	313,365
2008	329,244	498,01	136,336	208,318	27,677	326,34	200,58	545,714
Couple with 3 or more children								
2004		226,641						
2005	207,473	194,131	176,791	59,565	188,333	99,594	1085,425	615,492

[123] In all likelihood, this is due to other programs kicking in to tackle old-age poverty before social assistance does;

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2006	520,826	82,601	112,2	86,522	189,593	153,98	1536,397	307,514
2007	456,327	353,986	102,694	103,536	125,786	182,205	1777,333	607,979
2008	392,979	134,264	163,594	154,657	121,251	179,332	1118,187	960,601
Single parent family living alone								
2004		190,823						
2005	428,508	240,335	479,059	112,338	231,051	133,92	888,648	128,121
2006	555,805	192,17	110,474	149,124	143,893	232,573	1118,727	436,161
2007	753,924	164,016	210,253	127,78	234,99	266,465	1018,299	344,024
2008	517,759	244,727	250,821	199,693	235,112	284,269	1621,493	206,98
Single parent living with other adults								
2004		175,819						
2005	361,742	179,832	362,595	136,574	167,999	89,428	611,105	295,975
2006	491,944	199,31	108,564	66,22	122,852	137,749	646,568	373,704
2007	469,801	178,476	100,391	84,052	95,406	164,496	638,756	359,259
2008	533,528	201,316	143,592	109,318	216,196	172,993	674,21	431,542

Note: benefits levels are computed at the household level and 'equivaised' for household size using the modified OECD scale; figures refer to the year prior to the survey, i.e. 2003-2007.
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional database.

In the three Baltic States, average amounts are much smaller across the board, although substantial rises have been registered especially in Estonia. Average payments are particularly low in all countries (except Estonia in 2007) for couples, both those with two and those with three or more children. The most vulnerable family type, single parents living alone, receives in the Baltic countries about an eighth to a half of the transfers it obtains in the other countries. Indeed, Latvia has the lowest average benefits for single parents living alone. Albeit their benefits are very low in absolute terms, single person pensioner households outrank couples with children and in some cases single working age adults.

Average equivalised social assistance benefits are fairly constant across family types in Hungary. Single parents living alone receive, on average, somewhat higher transfers, but in the remaining household categories received benefits amount to between 100 and 200 Euros per year per equivalent person. In Poland, the best protected category is that of single person pensioner households. Couples with three or more children and single parents living with other adults are least protected. This finding is not surprising given that the Polish social assistance program has a very low family cap, thereby effectively putting larger households at a disadvantage. Finally, the Slovak program probably shows the largest variations in generosity across family types. Couples with three or more children, single working age adults and couples with two children receive relatively large transfers, comparable to those in the Czech Republic and Slovenia. Single person pensioner households also benefit from larger than average transfers. In fact, of all eight countries, the Slovak income support scheme disburses the largest amounts

(in absolute terms) received by single person pensioner households in the region. Contrarily, average benefits are low for single parents living with other adults and very low for single parents living alone.

Whereas average paid out benefits increased constantly across time for single person households, both pensioner and working age, substantial fluctuations occurred in the case of the other four family types in virtually every country. Both increases and decreases have been registered. It is unclear what triggers these oscillations as they do not follow trends in the poverty gap (for example, poverty gaps fall for single person pensioner households while average disbursed benefits increase; for some years, the reverse is true for single parents living alone.

A different perspective on benefit generosity is offered in Table 4.12. It presents the average share of a poor household's budget made up by social assistance disbursements. For most family types, it becomes quickly apparent that means-tested income support largely tops-up income from other sources. Means-tested income support is least important for single person pensioner households. In almost every country and year, the benefit rarely comprises more than a fifth of a poor household in this category. There is a clear outlier however, namely Poland during the entire period, but especially during the first three years. There, single person pensioner households have to rely for between a third and half of their income on means-tested benefits.

Table 4.12 Average yearly benefit as % of poor households' budget

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004		34,74						
2005	31,8	8,63	10,12	5,15	23,95	18,89	34,91	64,05
2006	38,59	18,3	9,64	4,47	52,52	17,59	31,09	32,8
2007	39,47	1,06	5,07	20,24	6,38	17,63	25,06	37,68
2008 (	31,67	29,58	14,61	6,84	20,77	15,48	28,8	65,58
Single person aged <65								
2004		62,79						
2005	64,9	81,4	22,58	41,53	22,98	51,44	60,09	68,17
2006	57,77	51,48	21,02	31,64	30,07	53,21	64,1	75,33
2007	58,93	64,83	13,56	22,01	15,26	43,79	55,6	64,21
2008	69,73	30,19	25,61	17,26	25,72	50,71	56,81	64,23
Single person aged >=65								
2004		44,23						
2005	8,72		3,46	6,36	8,61	49,99	5,12	2,95
2006	9,86		12,57	7,03	10,95	33,94	10,87	23,46
2007	12,27		10,1	7,9	7,67	43,05	3,07	16,09
2008	23,28	4,38	20,01	9,67	1,75	25,26	4,16	27,59
Couple with 3 or more children								
2004		29,91						

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2005	20,63	16,31	3,59	17,25	23,3	10,85	39,09	78,26
2006	41,99	7,02	5,31	8,22	45,63	13,06	46,92	29,87
2007	29,93	26,57	7,62	3,99	13,08	11,95	51,41	54,87
2008	17,71	8,32	14,3	12,66	6,26	12,61	31,39	59,98
Single parent family living alone								
2004		26,3						
2005	24,7	27,36	28,45	21,16	47,25	14,83	33,97	26,18
2006	27,29	16,63	6,26	17,15	42,95	30,36	34,68	36,67
2007	34,8	17,88	10,88	10,6	54,83	25,74	35,8	15,08
2008	26,88	10,85	17,36	9,78	19,98	25,34	37,63	12,02
Single parent living with other adults								
2004		30,38						
2005	31,6	28,01	15,64	9,29	25,41	10,62	24,97	50,8
2006	32,28	29,73	7,4	12,26	14,58	14,24	31,47	36,57
2007	34,44	10,55	5,44	7,53	12,95	15,57	32,43	42,01
2008	28,69	29,72	13,24	6,44	14,37	13,87	27,05	34,19

Note 1: figures computed at the household level, using household weights; figures refer to the year prior to the survey, i.e. 2003-2007
Note 2: missing values denote too low a number of cases in the respective cell;
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the 2008 cross-sectional database.

In every country, single poor working-age adults are most reliant on social assistance transfers. The finding most likely reflects the lack of other income sources available for this group rather than a high level of transfers.

Single parents derive between 10 and 50% of their income from social assistance, depending on country and year. The strongest reliance is registered in Lithuania and Slovenia, while the lowest is found in Hungary and Poland. Throughout the four year period, apart from the Czech Republic, Slovenia and Poland where the size of the transfer relative to the household's budget is stable or slightly increasing, social assistance benefits become less important for single parents living alone. If cross-country differences are limited in the case of single parents living alone, the opposite is true in the case of single parents living with other adults. Two patterns are clearly noticeable. On the one hand, the Czech, Slovak, Estonian and the Slovenian social assistance programs contribute about 25 to 40% to their poor clients that live in households with single parents and other adults. On the other hand, in Hungary, Latvia, Poland and Lithuania, social assistance disbursements make up only 5 to 15% of this type of household's resources. Poor couples, whether with two or more children, receive around 20-30% of their income from their respective social assistance program. Finally, social assistance is much more important for every type of recipient (with the partial exception of single pensioner households) in the Slovak Republic compared to the other countries.

4.5.3 TARGETING MECHANISMS' RESULTS ACROSS FAMILY TYPES

By their very nature, social assistance programs are highly selective. In principle, they screen their clients through the program's entitlement rules. These rules often do not refer solely to income, but incorporate asset limits and, perhaps more importantly, work tests that represent barriers to entry. Moreover, since all programs encompass varying amounts of discretion at the local level, the strict implementation of formal rules cannot be taken for granted. As a result, poor households may be sometime refused support (exclusion errors)[124] while better off ones may nonetheless receive extra resources from the program. As eligibility rules and their implementation, likely depend on household size and composition, Table 4.13 illustrates the extent to which the poor in various family types are reached by the social assistance program in their country.

The importance of family characteristics in determining the extent of exclusion errors is particularly striking in the Czech Republic, Hungary, Slovenia and the Slovak Republic. In these four countries, poor families are much more likely to receive social assistance payments if they contain children. In fact, coverage levels for all four family types that do contain children are very high, sometimes exceeding 80%[125]. They fall to 30-50% for those household types that do not contain children. The best covered households are single parent (both with and without other adults) and large families in the Czech Republic and Slovakia. High coverage rates (above 50%) are present in Hungary as well, albeit mainly for couples with children. Conversely, the poor single elderly are much less likely to receive any means-tested transfers[126].

Table 4.13 Coverage (exclusion errors) levels in Central European social assistance programs

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004		2,2						
2005	73,18	2,08	50,44	5,41	18,34	30,67	75,74	33,26
2006	60,17	9,22	27,95	2,24	13,85	37,34	63,21	47,54
2007	59,58	4,78	28	14,42	15,04	26,61	53,02	42,74
2008	50,64	11,51	52,14	18,81	20,3	22,81	27,91	23,41
Single person aged <65								
2004		44,56						
2005	49,4	13,56	16,61	19,18	13,93	32	38,83	58,66
2006	52,79	20,82	34,72	11,14	16,59	42,52	43,98	64,02

[124] Figures presented in Table 13 refer to poor receiving benefit; the data does not allow for a distinction to be made between benefit refusal and non-take up among the poor who do not receive any transfers; moreover, coverage levels may be artificially low due to underreporting of means-tested income.

[125] The Slovakian system is however much less successful in reaching poor coupled with two children;

[126] It is possible that members of this group have incomes close to the poverty line and as a result, may be potentially ineligible for benefits;

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2007	62,4	8,04	26,89	15,14	17,96	46,89	46,58	52,64
2008	42,54	11,01	27,68	23,8	12,71	36,73	42,23	46,64
Single person aged >=65								
2004		3,97						
2005	12,74	0	25,4	26,99	13,2	24,04	5,04	27,23
2006	14,46	0	37,55	26,08	12,53	29,6	12,02	15,47
2007	10,91	2,89	26,86	21,99	22,34	29,8	13,87	18,05
2008	18,96	3,43	32,56	32,06	27,92	16,91	13,11	20,66
Couple with 3 or more children								
2004		37,43						
2005	82,17	55,41	21,73	56,11	9,39	36,18	72,53	71,4
2006	87,61	13,42	50,27	30,54	10,87	46,32	67,28	45,48
2007	75,56	6,14	47	33,04	13,62	39,91	70,57	34,24
2008	59,62	13,11	62,69	26,06	32,68	38,9	71,8	23,13
Single parent family living alone								
2004		50,81						
2005	72,52	37,83	32,43	21,82	32,14	50,12	74,53	85,67
2006	72,12	24,98	36,45	17,52	30,01	69,18	59,54	53,31
2007	72,01	26,19	41,69	22,09	23,1	49,54	77,29	26,57
2008	68,74	18,65	64,15	25	29,71	45,39	69,78	31
Single parent living with other adults								
2004		19,08						
2005	77,69	22,38	30,48	11,06	13,06	29,95	71,17	58,62
2006	80,61	14,62	39,46	7,83	27,19	36,21	57,19	46,26
2007	77,24	7,42	49,13	12,08	12,17	36	66,81	57,82
2008	44,03	13,52	65,95	14,98	27,81	32,81	63,73	40,31

Note: figures are computed at the individual level, using personal weights; figures refer to the year prior to the survey, i.e. 2003-2007.
Source: Own calculations based on the EU-SILC 2007 longitudinal and on the EU-SILC 2008 cross-sectional databases.

Coverage rates are more uniform across household types in Poland, and the three Baltic States, although poor single parents living alone are clearly more likely to be social assistance clients. Coverage levels are also lower in the latter four countries for virtually every type of household, with the exception of single person pensioner households[127]. Coverage rates for this group, albeit still low, are approximately twice as large as those encountered in the first group of countries. Finally, only the Czech Republic, Slovenia, Poland and the Slovak Republic have coverage rates of the poor single working age adults that exceed 30%. Both the Czech and Slovak Republic exhibit falling coverage rates for almost every type of household.

[127] In Estonia, during two years there are no poor single person pensioners receiving benefit; all the recipients in this category are non-poor;

The opposite of exclusion errors are inclusion errors. Leakage rates (i.e. share of the total client population that is not income poor before the transfer) are shown in Table 4.14 for each country and each year in the dataset. Single person working age adults are least likely to receive means-tested cash transfers if they are not poor. The rate of inclusion errors for this category is particularly low in the Czech Republic and Slovenia (under 20%). Only in Hungary, do very large sections of the working age adult client population receive transfers while being non-poor. However, Hungary has very high leakage rates, irrespective of the household type for which they are computed.

Table 4.14 Leakage (inclusion error) levels in Central European social assistance programs

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004		87,55						
2005	66,49	90,82	70,93	95,03	54,82	55,51	53,68	46,89
2006	71,07		73,16	94,18	39,59	54,36	62,31	32,69
2007	73,18	47,35	70,61	88,36	50,75	64,06	66	40,24
2008	57,05	42,06	72,3	75,73	43,04	65,76	55,64	39,87
Single person aged <65								
2004		20,49						
2005	19,03	14,29	73,61	51	59,71	42,55	14,79	39,61
2006	18,45	17,54	57,62	56,82	56,76	27,55	15,16	30,96
2007	15,31	24,81	31,02	23,63	34,51	29,42	4,52	17,52
2008	14,69	8,4	64,22	25,15	56,03	32,31	15,31	8,99
Single person aged >=65								
2004		45,63						
2005	89,52	100	91,55	93,21	92,07	79,22	37,32	85,15
2006	87,55	100	82,76	51,8	91,03	84,45	56,13	77,11
2007	87,56	68,74	84,64	33,6	65,81	84,48	45,44	67,55
2008	66,83	59,58	92,71	12,69	51,85	73,52	25,99	52
Couple with 3 or more children								
2004		40,65						
2005	72,91	40,24	82,63	69,58	66,03	51,34	65,46	44,46
2006	46,21	22,88	59	40,88	45,59	48,59	41,96	10,35
2007	40,14		65,78	43,02	86,13	52,92	37,81	32,6
2008	50,73	65,88	71,7	56,53	44,15	59,08	53,97	10,86
Single parent family living alone								
2004		24,96						
2005	38,34	27,06	79,45	50,61	35,39	29	38,82	64,39
2006	34,16	31,93	45,68	57,18	57,05	36,51	35,45	20,77
2007	43,39	19,48	63,09	55,98	60,86	38,62	27,27	34,87
2008	34,02	27,01	60,88	54,38	26,85	56,59	29,27	25,86
Single parent living with other adults								

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2004		38,52						
2005	59,31	51,6	84,5	84,74	62,17	61,34	76,96	56,41
2006	55,22	55,28	77,95	75,63	43	53,81	83,14	52,21
2007	48,83	56,92	67,19	75,97	72,09	57,66	79,5	53,08
2008	44,57	66,89	74	73,26	21,19	59,83	76,96	58,4

Note1: Figures computed at the individual level, using personal weights; figures refer to the year prior to the survey, i.e. 2003-2007
Note 2: Blank cells indicate a too small number of cases on which the indicator should be computed;
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional database.

Apparently, low coverage levels are not indicative of unavailability of income support among single person pensioner households. With few exceptions, leakage rates within this family type are well in excess of 50%, and sometimes reach 90%. The least prone to award benefits to non-poor single pensioners are Slovenia during 2004 and 2007 and Latvia during 2006 and 2007.

Leakage rates are generally lower for single parents living alone than for other types of households with children. The lower leakage rates point to fact that single parents without the support of other adults are extremely vulnerable to income poverty in every country. As a result of being more likely to be poor, the social assistance program is less likely to make an inclusion error when selecting a household of this type.

Last, a clear decreasing trend in the likelihood of making inclusion errors is observable in the Czech and Slovak Republics. This tendency manifests itself across the board, for all family types. In the other countries, leakage rates fluctuate but cannot be shown to follow a clear increasing or decreasing trajectory.

Thus, both inclusion and exclusion errors are relatively widespread in Central European social assistance programs, irrespective on which family type the focus is directed at. However, some interesting differentiations do emerge. Single person working age adults have the second lowest coverage rates and the lowest leakage rates indicating that income support schemes tend to shun this type of poor household. On the contrary, families with children have both relatively high coverage and leakage rates reflecting potential concerns with avoiding child poverty. Single parents living alone are somewhat of an exception. Due to their particularly high poverty risk, they are less likely to be non-poor while in receipt of means tested benefits.

Cross-national distinctions are apparent both regarding inclusion and exclusion errors. The Czech, Hungarian Slovenian and Slovak programs are much more effective in reaching families with children than other poor households. In the remaining four countries, coverage levels for the various family types cluster closer together. Interestingly, this latter group is also characterized by very low benefits. Meagre support is often thought to deter participation of the non-poor population and to restrict payments to the truly needy. This is obviously not the case.

All four countries waste large portions of their transfers on the non-poor. Indeed, for most household types, recipients are more likely to be non-poor than poor prior to the transfer. Again, this finding underscores the failure of self-targeting to weed out the better off and thus, to maximize efficiency.

4.5.4 Anti-poverty Effectiveness of Social Assistance Programs Across Family Types

The previous sections have accounted for program variation in outreach, generosity, and capacity to correctly identify the poor across six family types in eight Central and European countries between 2003 and 2007. However, for an income support program, the bottom line is its ability to effectively reduce poverty. Consequently, the four poverty reduction indicators presented in section VI for the general population, have been computed separately for each of the six family models. As previously, poverty is defined as having an equivalised household disposable income below half of the median. Partly due to the low incidence of poverty (according to this stricter definition), partly due to the low incidence of social assistance receipt within some family groups, absolute numbers in some country/year/family types cells are very low. Correspondingly, standard errors are high. Figures are missing when standard errors could not be computed (too little or no variation and a very small N).

Given the very limited ability of social assistance schemes to reduce the number of poor in the general population (Table 4.6), the decline in the poverty headcount index attributable to social assistance transfers is, unsurprisingly, generally low for all family types and all country-years. In line with program generosity patterns, headcount reduction is much more vigorous among families with children compared with childless households in the Czech Republic, Slovenia and, to a lesser extent in the Slovak Republic. In fact, in the former two countries up to 30-40% of families with children are brought above the poverty line by the social assistance payments. Perhaps due to their shallower poverty and overall smaller likelihood to experience material deprivation, couples with children are least likely to be pulled from poverty by social assistance disbursements. In the Czech Republic however, program effectiveness declines sharply in 2007 for all family types, but especially for families with children. In Poland and Hungary, and the Baltic States, headcount reduction among families with children is much lower, usually within a one digit range.

Table 4.15 Social assistance effectiveness-average poverty headcount reduction (all) I

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004								
2005	29,21		12,68			4,49	28,75	4,31
2006	17,94		2,73		4,28	7,18	15,75	6,54

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2007	15,63		8,49			10,86	14,33	14,15
2008	9,35		11,7			8,33	11,54	3,79
Single person aged <65								
2004		0,28						
2005	8,78	0,23	1,83	2,6		3,73	2,57	18,21
2006	7,36	4,94	4,63	2,01	2,85	10,17	5,11	7
2007	19,64		4,21	3,78	1,16	11,54		17,01
2008	1,44	2,28	4,05	1,68		6,97	1,25	5,14
Single person aged >=65								
2004		3,97						
2005	3,4		3,27	2,68	4,12	12,46		
2006	4,46		7,39	14,09	3,39	2,76	3,09	7,66
2007			8,51	5,17	6,15	11,59	1,93	10,44
2008	5,81	0,83	5,9	2,92	0,33	6,92	2,54	14,43
Couple with 3 or more children								
2004		3,57						
2005	48,82	2,56	2,65		6,11	5,05	13,72	19,82
2006	20,88		3,9		3,44	5,86	27,08	
2007	38,97		5,72			8,81	20,3	
2008	1,26	11,51	16,51	7,53		3,9	35,06	3,13
Single parent family living alone								
2004		2,58						
2005	22,72	8,33	13,19	0,85	1,25	4,86	18,87	36,44
2006	28,78	3,58	1,75	3,73		17,35	23,32	4,62
2007	22,94		12,99	1,31	3,37	15,55	36,91	
2008	13,92	3,96	7,42		2	6,85	41,26	7,07
Single parent living with other adults								
2004		3,16						
2005	20,15		14,51	0,48	4,91	2,45	32,89	20,2
2006	32,54	0,56	7,03	2,35	1,2	4,77	23,73	2,97
2007	32,92		5,25		1,18	4,91	31,75	12,73
2008	13,61	0,27	15,03	2,42	8,06	4,66	34,96	9,57

Note: Figures are computed at the individual level, using personal weights; figures refer to the year prior to the survey, i.e. 2003-2007.
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional database.

Average percent reduction is very low in all countries for single working-age adults and also, except Poland, for single person pensioner households. The least effective programs, irrespective of family type are the Baltic ones.

As shown in Table 4.13, some family types are more likely to be recognized as poor, and thus, be awarded benefits. In effect, the ability to correctly identify the poor constitutes a large first step in tackling poverty. Once a household has been identified as poor, the next challenge is

to lift it above the poverty line. To better understand how programs treat the various types of families, the next set of figures quantifies effectiveness in reducing the poverty headcount index after targeting, by looking at program clients only.

Reiterating the pattern found using both clients and non-clients, the four family types that contain children show higher percentage reductions compared to other household types in the Czech Republic and Slovenia but not in the Slovak Republic. It seems that in the Slovak Republic, families with children are more likely to be recognized as poor but not more likely to receive comparatively much higher benefits. On the contrary, in the Czech Republic and Slovenia, households with children are both more likely to be accepted as program clients and to receive more generous protection against material deprivation compared to other family types.

Table 4.16 Social assistance effectiveness-poverty headcount reduction (recipient population) II

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004								
2005	39,91		25,15			14,64	37,95	12,97
2006	29,82		9,79			19,22	24,92	13,77
2007	26,23		30,34			40,8	27,03	33,11
2008	18,45		22,45			36,54	41,35	16,19
Single person aged <65								
2004		0,64						
2005	17,78	1,71	11,03	13,56	0	11,65	6,63	31,04
2006	13,94	23,75	13,34	18,04	17,2	23,93	11,62	10,94
2007	31,47	0	15,65	25,01	6,48	24,62	0	32,32
2008	3,39	20,78	14,63	7,06	0	18,98	2,97	11,02
Single person aged >=65								
2004								
2005	26,75		12,9	9,95	31,22	51,83		
2006	30,89		19,69	54,03	27,08	9,34	25,73	49,54
2007			31,69	23,52	27,55	38,88	13,97	57,87
2008	30,64	24,29	18,14	9,12	1,18	40,92	19,38	69,83
Couple with 3 or more children								
2004		9,53						
2005	59,41	4,62	12,19		65,11	13,97	18,92	27,75
2006	23,83		7,76		31,7	12,64	40,24	
2007	51,57		12,17			22,08	28,77	
2008	2,11	87,74	26,38	28,89		10,04	48,83	13,55
Single parent family living alone								
2004		5,08						
2005	31,33	22,02	40,66	3,91	3,9	9,69	25,33	42,54
2006	39,9	14,36	4,82	21,3		25,08	39,16	8,66
2007	31,85		31,15	5,96	14,62	31,39	47,75	

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2008	20,25	21,24	11,57	12,96		15,1	59,13	22,83
Single parent living with other adults								
2004		16,55						
2005	25,94		47,61	4,33	37,63	8,18	46,22	34,45
2006	40,37	3,86	17,83	29,98	4,42	13,17	41,5	6,43
2007	21,5		10,69		9,71	13,64	47,53	22,01
2008	30,9	2,05	22,79	16,17	28,98	14,21	54,85	23,73

Note 1: figures are computed at the individual level, using personal weights; figures refer to the year prior to the survey, i.e. 2003-2007.
Note 2: in some cases, the figure is missing due to a too low N in the respective cell;
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional database.

The likelihood of the social assistance program pulling single working-age adults above the poverty line is greatly increased when ignoring targeting issues. In some years, the reduction surpasses 30% in the Czech and Slovak Republics. Even in the Baltic States, it usually exceeds 10%. The strongest divergence between the achieved reduction among the program clients and the one achieved for the total population is undoubtedly registered in the case of single person pensioner households. For every country and year, the conditional likelihood of escaping poverty given that one is a program client is much higher than the unconditional probability. This suggests that single person pensioner households are unlikely to receive social assistance payments, but when they do, the transfers tend to be substantial relative to the household's income shortfall. Assuming poor identification has been successful, Poland and the Slovak Republic are most likely to lift a single person pensioner household out of poverty.

Headcount reduction effectiveness is obviously always higher when computed among program clients only rather than the entire corresponding sub-population. However, the size of the discrepancy varies. It is greater for single person households, whether pensioner or working age, than for the other households and in Poland and the three Baltic countries compared to the rest. Thus, exclusion errors appear to be much more prevalent in Poland and the Baltic States for all family types and among single person working age and pensioner households compared to family types that contain children. Not surprisingly, countries/categories with high exclusion errors are also the ones where overall poverty headcount reduction is smallest, indicating that inadequate targeting mechanisms play a major role in diminishing program effectiveness.

Social assistance plays a role not only in poverty reduction, but also in poverty alleviation. Thus, while not providing for enough resources to bring the poor over the poverty line, transfers may make up for a substantial portion of income shortfall, thereby dampening significantly the severity of poverty. Table 4.17 shows how the extent to which the poverty gap is filled by social assistance benefits varies across family types, countries and years. A review of the table quickly points out that the Baltic social assistance programs fill, on average, very small amounts of a

poor household's income gap. In particular, the programs' contribution to poverty alleviation is almost nonexistent in the case of coupled with two children.

Table 4.17Social assistance effectiveness-poverty gap reduction (all) I

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004		0,29						
2005	53,29	0,65	27,2	1,11	6,34	13,21	57,37	20,82
2006	43,3	3,9	9,42	0,29	7,15	16,13	39,13	17,22
2007	44,18	0,27	15,51	3,36	1,83	15,88	30,25	26,03
2008	30,2	2,85	26,25	4,37	3,11	11,52	18,3	13,06
Single person aged <65								
2004		11,67						
2005	35,57	3,13	7,55	6,75	3,51	13,62	17,07	36,59
2006	33,11	9,27	10,64	3,88	5,82	22,6	26,14	36,6
2007	41,98	1,84	8,46	6,86	4,92	25,45	18,92	36,83
2008	23,64	4,9	10,3	6,11	2,24	22,32	16,56	27,77
Single person aged >=65								
2004		3,97						
2005	6,92		7,8	8,3	8,15	19,41	1,71	4,92
2006	9,8		15,83	19,62	7,2	13,87	6,1	12,56
2007	5,68	1	14,57	10,82	11,85	22,19	3,32	15,23
2008	12,29	1,67	13,4	11,22	3,41	11,82	3,89	19,35
Couple with 3 or more children								
2004		15,4						
2005	62,71	27,1	7,18	6,9	6,62	12,22	57,35	48,38
2006	57,89	1,5	16,05	9,32	5,04	17,24	59,56	17,75
2007	55,37	2,23	16,24	1,22	4,72	17,79	58,47	19,1
2008	23,08	12,09	35,14	9,87	6,63	15,44	65,09	12,36
Single parent family living alone								
2004		18,74						
2005	45,97	14,36	23,11	10,59	17,34	15,02	43,88	47,72
2006	50,31	12,92	7,03	6,33	10,54	34,27	35,06	24
2007	49,06	4,44	18,42	7,07	14,35	30,29	55,95	11,9
2008	32,03	7,73	27,49	8,9	6,68	25,87	60,76	10,66
Single parent living with other adults								
2004		9,06						
2005	52,03	10,08	21,01	2,73	7,1	7,4	51,43	38,63
2006	59,4	5,01	14,83	3,78	10,46	13,19	40,39	21,06
2007	49,15	2,74	16,91	2,34	4,85	13,35	49,63	30,18
2008	24,68	2,84	31,9	4,74	11,84	13,54	50,48	21,54

Note: figures are computed at the individual level, using personal weights; figures refer to the year prior to the survey, i.e. 2003-2007.

Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the EU-SILC 2008 cross-sectional database.

The Czech and Slovenian schemes are the most successful in eliminating a substantial (over 30%) portion of the poverty gap for all family types, with the exception of single person pensioner households. Small poverty gap reductions (between 1 and 20%) for this family type are typical for all countries in the analysis. Hungary, Poland, Latvia and the Slovak Republic achieve the greatest poverty gap decline for single person pensioner households.

The highest drop in poverty gap attributable to social assistance schemes is found among families with children in the Czech and Slovenian systems. Thus, once again, the superior protection that households with children enjoy in these two countries is confirmed. However, just as in the case of the headcount index, the share of the poverty gap filled by social assistance transfers plummets in the Czech Republic during 2007, from 50-60% to barely over 20%. Families with children, except couples with two children, also have a substantial portion of their poverty gap filled in the Slovak Republic. At the opposite end, the three Baltic States, and to a certain extent also Poland, do not fill more than 15% of the average poverty gap of a household which has children. Single parents living alone are somewhat of an exception. Their poverty gap is decreased by about a third in Poland.

Compared to the headcount reduction index, the average gap decline shows a somewhat different picture in the case of single working age adults. Thus, in the Czech Republic, Poland, Slovenia and the Slovak Republic their pre-transfer income shortfall shrinks by between 20 and 40% after receipt of means tested benefits. This constitutes a sizeable cutback. Much smaller decreases are registered in the remaining four countries.

Although the exact country ranking changes depending on the year and family type, cross-national patterns in poverty gap reduction effectiveness are visible. The Czech and the Slovenian social assistance programs contribute most to improved economic conditions among the poor, followed closely by the Slovak Republic. Hungary and Poland achieve much weaker results, while still bringing about noteworthy gap declines, in the range of 10-25%. Finally, in all Baltic States, but particularly in Estonia, achieved poverty reduction is very low. In these countries, single parents living alone are the group with the highest share of the gap closed by means-tested transfers.

The last table, Table 4.18, shows average poverty gap reduction for the various family types, but computed using only program clients. The rationale, as in the case of the headcount index, is to provide for a measure of program effectiveness that in some way factors out targeting performance. Indeed, the portion of the gap that would be filled by social assistance transfers is much higher when ignoring exclusion errors. However, almost nowhere and never is the poverty gap fully closed for a family type. Slovenia comes closest to filling the entire poverty gap for couples with three or more children in 2007.

Program participants have almost three quarters of their poverty gap closed by means-tested income support if they belong to a household that has children and live in the Czech Republic, Slovenia or the Slovak Republic. Single working age adults also receive generous assistance compared to their income shortfall, albeit this is much less true in Slovenia where only about half of single working-age adults' poverty gap is filled by social assistance transfers. On the other hand, single person pensioner households receive much less generous resources compared to need, especially in Slovenia but also in the Slovak Republic in 2004.

In Hungary, couples with two children and single parent households (whether living alone or with other adults) have most (between 30 and 70%) of their poverty gap filled by the social assistance program. In Poland, single person pensioner households stand out. Whereas average poverty gap reduction fluctuates between 30 and 60% for the other types of households, in the case of single person pensioner households, it occasionally surpassed 80%. In fact, Poland achieves the highest gap reduction rates for this group of households.

Table 4.18 Social assistance effectiveness-poverty gap reduction (recipient population) II

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
Couple with two children								
2004		13,41						
2005	72,82	31,5	53,92	20,5	34,61	43,07	74,35	75,73
2006	71,96	42,3	33,7	13,07	51,62	43,21	61,9	36,23
2007	79,19	5,73	55,41	22,58	12,19	59,68	57,07	60,9
2008	59,64	24,76	50,34	23,24	15,32	50,51	65,56	55,8
Single person aged <65								
2004		26,19						
2005	71,99	23,13	45,49	35,23	25,2	42,57	43,96	62,37
2006	62,71	44,54	30,65	34,85	35,07	53,14	59,44	57,17
2007	67,27	22,93	31,46	45,31	27,42	54,29	40,61	69,97
2008	55,58	44,49	37,24	25,66	17,67	60,78	39,22	59,51
Single person aged >=65								
2004								
2005	54,36		30,7	30,76	61,78	80,76	33,9	18,08
2006	67,76		42,17	75,22	57,5	46,88	50,78	81,21
2007	52,05	31,15	54,26	49,22	53,06	74,45	23,93	84,37
2008	64,82	48,66	41,15	35	12,21	69,9	29,69	93,67
Couple with 3 or more children								
2004		41,13						
2005	76,31	48,91	33,04	12,29	70,53	33,78	79,07	67,75
2006	66,07	11,22	31,93	30,53	46,41	37,21	88,52	39,03
2007	73,28	36,42	34,56	3,7	34,71	44,58	82,86	55,79
2008	38,71	92,16	56,14	37,87	20,28	39,69	90,65	53,41
Single parent family living alone								
2004		36,88						

Indicator	CZ	EE	HU	LV	LT	PL	SI	SK
2005	63,39	37,96	71,26	48,55	53,94	29,97	58,87	55,7
2006	69,76	51,73	19,28	36,15	35,14	49,54	58,88	45,02
2007	68,13	16,97	44,19	32,04	62,11	61,14	72,39	44,78
2008	46,59	41,43	42,85	35,59	22,5	56,99	87,07	34,4
Single parent living with other adults								
2004		47,48						
2005	66,97	45,04	68,92	24,7	54,37	24,72	72,26	65,89
2006	73,68	34,29	37,6	48,28	38,49	36,44	70,63	45,53
2007	63,62	37,04	34,42	19,36	39,89	37,07	74,29	52,19
2008	56,04	20,98	48,36	31,67	42,57	41,26	79,21	53,43

Note: figures are computed at the individual level, using personal weights; figures refer to the year prior to the survey, i.e. 2003-2007.
Source: Own calculations based on the EU-SILC 2007 longitudinal database and on the 2008 cross-sectional database.

In the three Baltic countries, gap reduction rates are lowest for couples with two children. Apparently, this type of participating households receives much less resources relative to need compared to the other household types. Reduction rates are also relatively low for single working age adults, whereas they are highest for single person pensioner households.

Although precise country rankings are not entirely consistent across family types and year, a clear distinction emerges between the Czech Republic, Slovenia and the Slovak Republic on the one hand and the remaining countries on the other. Social assistance transfers in the former three states are successful in closing, on average, much larger portions of the various households' income shortfalls, despite a visible downward trend in the Czech Republic and substantial yearly fluctuations in the Slovak Republic. In the other countries, in spite of substantial variation, the share of the poverty gap that is closed suggests that received transfers are probably too small relative to the income needs of the recipient household[128].

4.6 SOCIAL ASSISTANCE AND POVERTY OUTCOMES IN CENTRAL AND EASTERN EUROPE

First of all, it should be noted that, generally speaking, social assistance schemes are a marginal element of the welfare state in Central Europe. Benefits are directed towards a small number of recipients, while benefit levels are relatively meagre. Nonetheless, a clear demarcation may be drawn between Slovenia and the Czech and Slovak Republics on the one hand and the three Baltic States on the other hand. The first group of countries clearly possess more developed means-tested programs compared to the second. In particular, resources devoted to social assistance in Estonia, Latvia and Lithuania are tiny in comparison with existing needs. The

[128] Another possible explanation is that benefit receipt triggers directly or indirectly the loss of other incomes;

remaining two countries, Hungary and Poland, are situated somewhere in between the other two groups. While it is true that the three small Baltic States are somewhat poorer than the CEE average, a clear positive correlation between country wealth (as determined by the national poverty line) and resources made available to social assistance is not confirmed. For instance, while Estonia, Hungary, and the Slovak Republic enjoy similar levels of economic growth but have widely diverging levels of social assistance spending and size of the client population. Furthermore, the countries that have the highest receipt rates also offer the highest benefits. Unlike West European patterns (Obinger 1999; Sainsbury and Morissens 2002), extensiveness and generosity seem to be positively associated in Central Europe.

There is a region wide downward trend in the resources committed to this type of programs, as well as to the share of the population serviced. The pattern is most visible during the last year of the observation period, i.e. 2007. Only Poland seems to have slightly increased total spending relative to needs, but neither average benefits nor coverage rates exhibit corresponding increases. Hungary also seems to devote more resources to means-tested income support in 2007, although this result is observed solely during the last year of observation, and thus, potentially unreliable. Most troublesome, the strongest decline is found in the most developed systems, namely the Czech Republic and Slovenia. In these two countries, the drop in spending seems to be reflected mostly in a smaller number of clients rather than in diminished transfers. Estonia's decline in overall funding has registered both in declining average benefits and in lower receipt rates, whereas Lithuania and Latvia have simply maintained both low levels of spending and low benefits. Thus, means-tested income support schemes are less extensive throughout the region in 2007 compared to 2004, a development consistent with the restriction of program rules and toughening of sanctions described in Chapter 3. While a detailed analysis of the political economy of means-tested income support is beyond the scope of this work, the cutbacks suffered by social assistance schemes in the recent years can be interpreted as a lack of political sustainability for this type of protection program. In spite of relatively superior performance, both the Czech and the Slovenian programs have been slashed or made more stringent.

Given their relatively small size and lack of overall resources, it is unsurprising that social assistance programs in Central Europe do not have a major impact on poverty outcomes. Particularly in the Baltic States, but also in Poland and Hungary, the level of resources devoted to income support/ means-tested housing is abysmally low and hence, unlikely to effectively combat poverty levels or poverty severity. In addition to the overall resource level, the ability of social assistance programs to cut poverty is severely hampered by their inability to reach the poor. Even when the poor are defined in a moderately restricted fashion, three out of eight countries fail to disburse any payments to four fifths of the poor. In the best case scenario, a poor person has roughly a 70% probability of receiving income support. The existing data does not allow for the disentangling of the mechanisms behind the low coverage levels. More specifically, it is not clear whether voluntary non-take-up or the program administration rejecting

claims[129] are responsible for low coverage figures. However, in countries where entitlement rules are comparatively stringent, such as the Baltic States, the thin coverage is at least in part due to the too low level of the income support threshold.

Looking at the two most important indicators, namely reduction of the headcount index and of the poverty gap among the total population, the achieved results are strikingly poor, albeit somewhat better in the latter case. Notably, the country ranking in performance, albeit somewhat dependent on the exact indicators and year, is largely consistent. Thus, the Czech Republic, Slovenia and the Slovak Republic consistently outperform the other five countries, irrespective of which measure of effectiveness is used. Conversely, the three Baltic States constantly rank at the bottom. Consequently, countries that operate more extensive and liberal income support schemes do appear to be better able to effectively reduce poverty. This correlation is also verified in a cross-temporal perspective. More specifically, the stricter entitlement rules and, in some cases, lower benefits that have come about in the Czech Republic, Slovenia and the Slovak Republic have been accompanied by a drop in program performance. Programs have become simultaneously less able to reach the poor, less likely to pull them out of poverty and less successful in alleviating deep poverty.

The lack of effectiveness of Central and Eastern European income support schemes goes along with low efficiency. Quite strikingly, given the relatively strict entitlement tests used for separating the poor form the non poor, a large section of the client population has a disposable income that is above the poverty threshold before benefit receipt. The leakage and well-targeted spending criteria yield somewhat different country rankings. Yet, Estonia, the Slovak Republic and the Czech Republic are relatively more efficient, whereas Hungary, Slovenia and Latvia run the most wasteful programs. Unlike effectiveness, efficiency does not seem to be correlated with the scheme's generosity. To illustrate, the Slovak and Czech income support programs are ranked high in terms of extensiveness and benefit generosity but also in terms of program efficiency. At the opposite end, the Latvian social assistance is both small and meagre and inefficient. Nor does there emerge a trade-off between effectiveness and efficiency, as indicated by previous studies (Hölsch and Kraus 2006). The largest reductions in the poverty rate and poverty gap are brought about both by relatively efficient means-tested transfer programs (as in the Czech Republic) and by relatively inefficient ones (as in Slovenia). One pattern is supported though by the data. Less efficient countries "wasting" more of their resources, are also more likely to "cream", in this case have social assistance transfers that are less progressive and that fare poorly in cutting the poverty gap relative to the headcount index reduction.

Means-tested benefits are often argued for based on the merits of targeting (Ringold and Andrews 1999; Fox 2003; Sipos and Ringold 2005; Ringold, Kasek et al. 2007). In particular, they are advocated as the most efficient method of achieving income redistribution. By making

[129] It is also possible that respondents underreport received payments or informal income that is known to social workers; coverage levels may also be artificially inflated due to coverage being constructed exclusively on income information, whereas eligibility most often contains an asset and a work test;

benefits available only upon passing a resources test, targeting is supposed to save public money while still preventing material hardship and redistributing towards the bottom. Yet, one the most striking findings emerging from the analyses carried out in this chapter consists in the very poor targeting performance, with low coverage and high leakage, in all eight countries. Interestingly enough, there does not seem to be an inverse relationship between leakage and coverage. Thus, systems that cover less of the poor do not necessarily leak less to the non-poor. For example, Latvia has one of the lowest coverage but they also rank high in terms of leakage. On the contrary, the Czech Republic, and the Slovak Republic have, relatively speaking, both higher coverage and lower leakage. This would seem to indicate that the efficiency of means testing depends primarily on its implementation and has little to do with the stringency of the means test itself. Nevertheless, it is difficult to establish a clear correspondence between targeting efficiency and the quality of the administration. The Slovenian civil service is probably among the more developed and dependable in the region, yet the Slovenian social assistance is highly inefficient.

To achieve their goal, i.e. reduce poverty and material deprivation with a minimum of resources, all means-tested programs face the challenging problem of restricting transfer receipt to the genuinely poor. Closely intertwined with this aspect are targeting rules and program complexity. Arguably, more refined program rules regarding eligibility, award of benefits and conditions of entitlement maintenance may better capture individual needs. They can also help weed out "apparently" poor applicants, i.e. those that have an apparently low income but have access to other resources. However, they can also very quickly become cumbersome, difficult or impossible to implement and require extra administrative resources that may not be available. The opposite approach, keeping rules simple, may be more advantageous from an implementation perspective, but may treat inadequately many clients. In between, discretion at the street level has been advocated as a way to both contain resources and offer an individualized service.

There are clear distinctions among countries regarding program complexity. Slovenia, the Slovak Republic and the Czech Republic, especially before 2007, have relatively complex programs with multiple rules and benefit types. On the contrary, rules are much more straightforward and simple in the Baltic countries and in Poland. Benefits are set per capita instead of varying depending on the age and position of the household members. There are virtually no income disregards and little individual counselling and few national programs to help push recipients into the labour market. It may be said that the very low benefits offered by means-tested income support in these four countries also act as a self-targeting mechanism. Instead of complex rules, these systems rely on the very low amount of the benefit to keep out the non-poor. In addition, all these countries employ local discretion as a de facto rationing device when resources are limited. Yet, this combination-simple rules, self-targeting through low benefits and local discretion as a rationing device, is proven both ineffective and inefficient. Both exclusion and inclusion errors are very widespread and the programs' effectiveness in reaching the poor and disbursing them enough support to make a difference in their living standard are

severely hampered. Moreover, although local discretion has successfully been used by some countries such as Sweden, it has yielded very poor results on Central and Eastern Europe. In combination with few resources and in the absence of an experienced and professional body of social workers, it is equivalent to arbitrary spending and very poor targeting results. Recognizing the fact that discretion is unworkable, Latvia partly centralized its social assistance program in 2002. Hungary, which has a large number of discretion-bound benefits, registered significant oscillations in the effectiveness of its safety net to reduce poverty. It also has one of the most inefficient programs.

The three countries that achieve the best effectiveness scores not only have higher benefits but also a regular indexation mechanism in place. Another feature that they share is having a relatively centralized administration running the income support program and delivering benefits. In addition, spending levels on this type of program is higher, at around 0.4-0.5% of GDP. Only Slovenia makes use of a large number of income disregards when establishing eligibility. The weakest effectiveness of means-tested benefits is registered in the Baltic States. These countries tend to be somewhat poorer, to spend little on their social assistance schemes (on average, around 0.1% of GDP), and to entrust the delivery of transfers to the local municipalities, while also relying, to a larger extent, on local finances to pay for benefits.

Efficiency indicators are not clearly linked with program characteristics, with perhaps one exception. Local administration of the program is more likely to lead to high leakage rates, as well as more "creaming", i.e. benefits are being channelled towards the near-poor instead of the very poor. This finding contradicts (at least for the CEE context) previous assumptions (Sipos 1994; The World Bank 2001; The World Bank 2003; Sipos and Ringold 2005; Ringold, Kasek et al. 2007; The World Bank 2007) that a local administration of targeted benefits is better able to separate the poor from the non-poor due to improved information.

To sum up, despite the variation in program performance, it is relatively clear that means-tested transfer programs are rather ineffectual and inefficient in dealing with poverty in all eight CEE countries. More resources spent on income support, as well as higher benefits are however visibly associated with increased effectiveness. The relationship between other program characteristics and effectiveness is more ambiguous. Targeting based on a means-test however does not live up to expectations regarding efficiency. A substantial number of non income-poor benefit from program participation whereas a large number of the poor are excluded from transfer receipt. Overall, the results mirror similar findings emerging from research on West European countries (Nelson 2004; de Neubourg, Castonguay et al. 2007). Just as in the Western part of the continent, social assistance schemes in Central Europe are residual in nature and play a relatively minor role in poverty prevention and alleviation. Programs might also be vulnerable to budgetary cutbacks even when they achieve results that are, comparatively, superior. Both Slovenia and the Czech Republic reduced funding for these schemes, a fact that negatively affected performance.

5 SOCIAL ASSITANCE PARTICIPATION AND FUTURE INCOME

5.1 INTRODUCTION: MEASUREMENT OF TRANSFER EFFECTS

The pre post transfer comparison method of evaluating outcomes of social programs constitutes a widely used research strategy in (especially European) social policy research. It offers a straightforward, relatively easy to understand, less technically demanding approach to outcome measurement. As such, it represents a very useful tool to be employed in welfare state studies. Nonetheless, it also suffers from a range of important limitations. First of all, despite extensions and refinements, it retains an essentially macro perspective. In assessing transfer outcomes, little consideration is given to the micro-level mechanisms that might generate one result or another. Even when this topic it touched upon (such as for example when considering benefit generosity), a comprehensive theory that included individual behavioural responses is missing. Consequently, one is often left with the impression that the causal mechanisms behind program outcomes are shrouded in a black box. Little is understood about why some programs achieve some effects while others fail do so. Therefore, existing research relying on the pre post transfer contrast strategy has been limited to constructing country rankings, league tables and country clusters.

Second, pre post transfer comparisons are plagued by a methodologically more important drawback, namely the ignoring of behavioural responses to the presence of the transfer/ program. In order to be able to validly infer causal effect, the level and distribution of income in the presence of the transfer should be compared to those that would have emerged in its absence, i.e. the counterfactual. Since a subject cannot experience simultaneously two different states, the counterfactual cannot be directly observed. Instead it has to be theoretically constructed and approximated using various methods and techniques. The pre post comparison strategy assumes that the pre-transfer distribution is independent of the presence of the transfer itself. Such an assumption is deficient on several counts. Following the standard welfare econometrics, labour supply is dependent on the amount of non-labour income one disposes of (Moffitt 2002; Bergh 2005). Hence, in the absence of a non-labour transfer, low-income households are more likely to increase their labour supply, and therefore also their earnings. The overlooking of the endogenous nature of pre-transfer income effect is likely to lead to the overestimation of any program effects on the income of recipients. A similar argument may be made in relation to non-labour income. Low-income families may be more susceptible to receive transfers from their kin, neighbours and network of friends when public aid is not available, an effect termed "crowding out" (Gruber 2000; Bergh 2005). Not accounting for this type of behavioural outcome is also more likely to yield an inflated program effect. Finally, it may be argued that not only income but also consumption patterns are likely to be influenced by the presence of a given benefit transfer. Not being able to rely on public income support, a low-

income family might save a larger portion of its income or might buy market insurance to stave off a too sharp drop in consumption due to future income loss.

Attempting to measure the effect of public transfer programs is indeed a complex and often cumbersome exercise. The endeavour becomes even more demanding when the transfer that is being considered is means-tested. This type of income support scheme is frequently governed by a complex set of rules establishing entitlement and aid levels. On the one hand, the provision of the benefit will likely lower labour supply not only through an income effect but also through a substitution one since the benefit imposes a high (usually 100%) tax rate on other income. On the other hand, the presence of mandatory work requirements has the potential to mitigate some of the labour disincentives inherent in the program design. The existence of maximal asset thresholds is another complicating factor that will be taken up in the next chapter.

Ideally, the evaluation of means-tested transfer outcomes would benefit from an experimental design (Moffitt and Ver Ploeg 1999; Barnow, Kaplan et al. 2000). Since undergoing the treatment (i.e. participation in the program) is theoretically open to manipulation, the counterfactual can be based on a randomized control group of eligible claimants that are treated differently (for example, they not awarded the benefit or are required to fulfil supplementary entitlement conditions). This strategy has been employed with great success in the evaluation of state alternative programs to the federal Aid to Families with Dependent Children (AFDC) in the late 1980's and the early 1990's (Moffitt and Ver Ploeg 1999; Bloom and Michalopoulos 2001; Blank 2002; Blank 2009). If properly executed, the experimental design is particularly strong in ensuring unbiased causal inference, although its external validity is somewhat weak. The use of an experimental design has other downsides as well. Experiments are ill-suited to address impact evaluations when the policy to be assessed is ill-defined, bundling many measures affecting several life areas, fluid or aiming at changing broader context characteristics that might also affect the control group (such as for example norms and expectations) (Barnow, Kaplan et al. 2000). Additionally, experiments cannot pick up any program effects on entry rates or spill-over impacts on the low-wage labour market (Moffitt and Ver Ploeg 1999; Barnow, Kaplan et al. 2000).

Despite these weaknesses, experimental evaluation is best suited for drawing robust conclusions about many types of outcomes of program participation. Unfortunately, experiments are expensive, may present ethical concerns, and/or are difficult to carry out. In the case of this research, they are simply an unavailable alternative. Consequently, the construction of the counterfactual has had to be based on statistical adjustments that are weaker in handling threats to causal inference. Not least non-experimental research design is often forced to rely on assumptions that cannot be empirically checked, but can only be argued for theoretically. Therefore, a theoretical underpinning of program participation impact at the micro level is essential. The next section reviews the main findings about how participation in means-tested transfer programs is likely to affect a range of outcomes. The precise research strategy employed in this chapter will be detailed later on in the *Data and Research Design* section.

5.2 THE FUNCTIONING OF SOCIAL ASSISTANCE: OF THE MECHANISMS BEHIND SOCIAL ASSISTANCE'S IMPACT ON INCOME AND POVERTY

Transfers that are contingent upon passing a means-test have often been regarded as the last layer of social protection and, as such, a quintessential measure of social rights (Lodemel and Schulte 1992; Behrendt 1999; Kuivalainen 2005). Provision of a minimum of resources to those who cannot otherwise provide for themselves may be argued for both in normative and practical considerations.

On the normative side, minimum support is seen, first of all, as a way to prevent the most dejected forms of deprivation and human degradation (Guibentif and Bouget 1997; Heikkilä and Keskitalo 2001; Saraceno 2002; Standing 2004; Munro 2008). Since family economic resources usually have an overwhelming impact on the subsequent cognitive, emotional and behavioural development of the offspring, social assistance may also be regarded as a way to ensure equal opportunity given the inequality of resources available to children in various families (Moreira 2008).

On the practical side, means-tested assistance schemes can be seen as an investment in human capital. By providing a modicum of resources, they might prevent a spiralling down of individuals who are temporarily unable to integrate in the labour market. They provide a source of income while their recipients look for work, increase their skills through education and training, or address longstanding problems such as health, housing or domestic violence issues. Beyond cash transfers, social assistance programs often have "reintegration" as an explicitly stated policy objective. In theory, "reintegration" is taken to have a broad meaning, namely the restoration of the individual's capacity to function within society. In practice however, "reintegration" is likely to focus on successful return to the labour market. In any case, social assistance programs are nowadays offering, in addition to income, various support services aimed at making recipients self-sufficient.

Another positive potential role for means-tested income support to play is as de facto insurance for low-income families. Changes in the nature of employment, the weakening of the breadwinner model, the restriction of access to public insurance schemes triggered by budgetary concerns have all contributed to the accumulation of new forms of vulnerability. Single parents, immigrants, temporary low wage workers etc. are categories for whom the traditional insurance mechanism whereby entitlement is based on a continuous contributory history does not work adequately. For them, social assistance might ultimately provide the insurance they cannot otherwise gain access to.

Research carried out in the developing, as well as in the developed countries has pointed to the poor experiencing more often income volatility (Danziger 1988; Emory Burton 1992; Barrientos, Hulme et al. 2005; Bergh 2005; Barrientos and Hulme 2008). In addition to being exposed more frequently to income risks (such as unemployment, illness etc.), the poor dispose of fewer buffers to protect themselves against detrimental events. As a result, they might be

forced to adopt life strategies that are counterproductive in the long-term, but that offer some measure of short-term economic security (for example, by engaging in criminal activities, pawning one's belongings, resorting to child labour etc.). More importantly, risk and vulnerability have been found to strongly correlate with foregoing investment in human capital (Barrientos, Hulme et al. 2005), and with asset return levels (Mosley and Verschoor 2005). Both low human capital and low asset levels contribute to maintaining income poverty in the long-run(Shapiro and Wolff 2001). Given their high income volatility coupled with generally insufficient resources to successfully cope with income shocks, the poor would stand to benefit a great deal from access to insurance mechanisms. However, in light of the strong moral hazard associated with the poor's characteristics, as well as the potentially higher transactions costs associated to providing insurance to this category[130] (Dercon, Bold et al. 2008), the market is unlikely to be able to efficiently provide insurance for this category. Similarly, since most insurance programs require a long contributory history and a stable work career, with infrequent interruptions of earnings, they are unlikely to provide the insurance the poor need.

In this context, a means-tested safety net can be viewed as an insurance mechanism specifically designed to temporarily assist the poor (Barrientos, Hulme et al. 2005; Dercon, Bold et al. 2008). One study of the American federal poor relief program before the 1996 reform (Gruber 2000) found that Aid to Families with Dependent Children (AFDC) played an important consumption smoothening role for mothers who became divorced.

Means-tested social assistance has also been vehemently criticized, as giving rise to a series of perverse side-effects that ultimately defeat its objective of helping the poor. Probably the most well-known and certainly the most debated argument is that of social assistance receipt leading to welfare dependency (Emory Burton 1992; Handler and Hasenfeld 2007). Traditional economic models of labour supply state that generous out of work benefits lower the incentives of individuals to seek and retain gainful employment, thereby making recipients "dependent" on public aid (Moffitt 2002).

Undoubtedly, the greatest amount of evidence on the work disincentives of means-tested public transfers comes from the American context[131]. Starting with the late '80s and early '90's an

[130] Gaining reliable information about the poor who often work odd and temporary jobs, draw heavily on the informal economy for earnings, have fewer valuable assets and more mobile is likely to lead to higher transaction costs; enforcement is also likely to be more problematic in the case of the poor;

[131] Similar arguments have been advanced by economists in the CEE context Boeri, T. and S. Edwards (1998). "Long-term unemployment and short-term unemployment benefits: The changing nature of non-employment subsidies in Central and Eastern Europe." Empirical Economics **23**(1-2): 31-54, Ham, J. C., J. Svejnar, et al. (1998). "Unemployment and the Social Safety Net during Transitions to a Market Economy: Evidence from the Czech and Slovak Republics." The American Economic Review **88**(5): 1117-1142, Ringold, D. and E. S. Andrews (1999). Safety Nets in Transition Economies: Toward a Reform Strategy. Social Protection Discussion Papers. Washington D.C., World Bank, Fox, L. (2003). Safety Nets in Transition Economies. A Primer. Social Protection Discussion Paper Series. Washington D.C, Social Protection Unit. The World Bank, Ringold, D., L. Kasek, et al. (2007). Social Assistance in Central Europe and the Baltic States. Washington D.C, World Bank.. In particular, the combination of low minimum wages and relatively higher assistance benefits was deemed to create a 'poverty trap'; Several authors Boeri, T. and S. Edwards (1998). "Long-term unemployment and short-term unemployment benefits: The changing nature of non-employment subsidies in Central and Eastern Europe." Empirical Economics **23**(1-2): 31-54, Earle, J.

increase in AFDC caseloads and corresponding expenditure spikes have brought welfare reform to the fore of the policy agenda. In response, a fairly large number of studies have attempted to measure the impact of the various changes made to the major federal means-tested program in the US, i.e. AFDC, both prior to the 1995 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) reform (focusing in this case on the programs implemented by states receiving a waver) and subsequently (trying to assess the impact of replacing AFDC with TANF- Temporary Assistance for Needy Families). Although findings are sometimes inconclusive, ambiguous and even contradictory, consensus exists in several respects.

First, the transition from AFDC to TANF has been unambiguously accompanied by a spectacular drop in caseloads, an increase in employment among single mothers (especially never-married single mothers, the most likely to be receiving AFDC benefits), together with increases in total disposable income and a drop in the poverty rates (Blank 2002; Sawhill, Weaver et al. 2002; Blank 2003; Blank 2009; Frogner, Moffit et al. 2009; Frogner, Moffitt et al. 2009; Ziliak 2009). Controversies exist though about the extent to which these positive trends are explained by the booming economy of the mid 1990-s, the expansion of the Earned Income Tax Credit (EITC), the raising of the minimum wage or welfare reform itself. Supporting the hypothesis that healthy economic growth was crucial to the plunge in caseload levels and the boost in low-wage employment, the positive trends came to halt after 2000 (Bollinger, Gonzalez et al. 2009; Ziliak 2009). Still, studies investigating welfare reform carried out in the framework of state wavers, before 1995 concluded that lowering benefits and introducing stronger work mandates is consistently associated with a drop in caseloads and welfare usage, as well as an increase in labour market participation and earnings (Hoynes 1992; Bloom and Michalopoulos 2001; Blank 2002; Moffitt 2002; Blank 2003).

However, increased employment rates have not been automatically translated into self-sufficiency. As a rule, individuals leaving the welfare rolls were directed primarily to insecure, low-wage jobs, carrying few or no benefits and offering virtually no prospects of a stable career (Bloom and Michalopoulos 2001; Blank 2003; Lein and Schexnayder 2007). As a consequence, welfare leavers remain at risk of re-entering the welfare program in the future (Sawhill, Weaver et al. 2002; Mueser, Stevens et al. 2009). Overall, welfare mothers have been recognized to have a low earnings capacity that stems from their own characteristics (Garfinkel, McLanahan et al. 1988), not from a conscious decision to replace labour with non-labour income. Other studies (Ayala and Rodriguez 2007; Blank 2009; Frogner, Moffitt et al. 2009) have confirmed the link between the ability to find employment and personal traits that are beyond the immediate

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S. and C. Păună (1998). "Long-term unemployment, social assistance and labour market policies in Romania." Empirical Economics **23**(1): 203-235, Ham, J. C., J. Svejnar, et al. (1998). "Unemployment and the Social Safety Net during Transitions to a Market Economy: Evidence from the Czech and Slovak Republics." The American Economic Review **88**(5): 1117-1142. emphasized the 100% effective marginal tax rates over large regions of income, especially for one-earner couples with children on minimum wage and the associated labour supply disincentives;

control of the recipient herself such as age, household size, household composition, low education, presence of health problems, number and age of children, quality of transportation in the area etc. Moreover, having more than one "unfavourable" characteristic strongly diminishes the probability of finding a job (Sawhill, Weaver et al. 2002; Lein and Schexnayder 2007). Harsher sanctions and shorter time limits by themselves have proved ineffective at influencing the likelihood of finding gainful employment (Lein and Schexnayder 2007). Conversely, the provision of work support services capable of removing some of the employment barriers (such as for example child-care) is associated with improved job retention and lower welfare recidivism rates (Lein and Schexnayder 2007). These findings question the extent to which the negative relationship between employment and benefit receipt is the result of an explicit option in favour of leisure over work on the part of the recipients. The accumulated evidence would seem to suggest that lack of employment is largely due to personal inability to integrate in the labour market rather than a personal preference for leisure.

If the effects of the American welfare reform on employment and welfare receipt rates are relatively straightforward, the impact on income and well-being is much less clear-cut. The decrease in poverty rates remained below that of the decline in welfare rolls, and unless some in-work benefits or earnings disregards were provided, the financial situation of welfare leavers often failed to improve (Bloom and Michalopoulos 2001; Blank 2002; Blank 2003). Moreover, while, as a rule, the disposable income of welfare leavers increased after exit, some non-employed leavers experienced income declines compared to when receiving benefits (Frogner, Moffitt et al. 2009). In particular, growing evidence points to the existence of a group of single mothers that are neither working, nor receiving benefits and that are very likely to experience extreme forms of poverty (Blank 2009). Harsher requirements for benefit receipt have been shown to be more likely to harm single mothers that have to deal with multiple integration issues (Sawhill, Weaver et al. 2002). Finally, even when increasing employment, reform failed to raise incomes across the board. Especially for the poorest income groups increased earnings have been entirely offset by benefit withdrawal, thereby leading to stagnation or even declines for households at the bottom of the income distribution (Sawhill, Weaver et al. 2002; Bollinger, Gonzalez et al. 2009; Frogner, Moffitt et al. 2009; Mueser, Stevens et al. 2009). More generally, the strong emphasis on work expectations, on self-support through employment and moving off pubic income support failed to properly address the long-term mobility of the disadvantaged (Ziliak 2009).

Not only income, but other measures of material well-being failed to show signs of progress. On the contrary, by some consumption measures, clients leaving welfare rolls experienced a deterioration of their situation. For example, studies of welfare leavers in the aftermath of the PROWRA reform showed a decline in health insurance coverage triggered by declining enrolment in Medicaid not being compensated by corresponding increases in employer sponsored private coverage (Lein and Schexnayder 2007; Blank 2009; Ham, Li et al. 2009; Kalil and Ziol-Guest 2009). The other major benefit aimed at supporting the poor in the US, Food

Stamps, also experienced declining take-up (Allard 2009; Blank 2009). Though welfare leavers often remained eligible for both Food Stamps and Medicaid, claims on these two types of benefits decreased considerably.

In an attempt to thwart work disincentives arising from public provision of income support, many developed countries have sought to strengthen the work mandates embedded in their social assistance schemes. They have drawn plenty of attention both in the US and in Europe (where they are usually referred to as Active Labour Market Policies –ALMP)(Wiseman 1988; Barr 1995; Geldof 1999; Hvinden 1999; Barnow, Kaplan et al. 2000; Hanesch, Stelzer-Orthofer et al. 2001; Aho and Virjo 2003; McCord 2008; Moreira 2008). By acting as another conditionality layer, work mandates increase the cost of working versus non working and thus, theoretically may lessen work disincentives arising from the provision of a means-tested benefit. However, such a mechanism is likely to be successful only if the ultimate causes of welfare dependency lie with the individual. On the contrary, work mandates are likely to be ineffective in the face of a lack of good, well-paying jobs (Wiseman 1988). In addition to the deadweight they may create, stringent work mandates may be harmful to recipients themselves since they distract from the search of an 'ordinary' job, while the associated stigma may have de-motivating and de-moralizing effects.

Results derived from experimental programs pointed to the best results being associated with programs that used a mix of job-search and training, depending on the recipient's characteristics and circumstances (Bloom and Michalopoulos 2001; Blank 2003). More importantly, work mandates are likely to be ineffectual if not accompanied by work-support services. Contrary to what the heavy emphasis on paid employment might suggest, finding a job is seldom equivalent to achieving self-sufficiency. Instead, even after leaving the welfare rolls, former client families remain in need of assistance. The provision of services to help them maintain a job (such as child-care, transportation, medical insurance etc.) plays an important role in securing self-sufficiency (Blank 2003; Lein and Schexnayder 2007).

Thus, while generating some support for the predictions derived from the standard labour supply model, the American welfare reform failed to show that stricter and less generous means-tested income support is better suited at combating poverty, especially in the long-run.

Evidence on the employment and income responses to European means-tested income support schemes is much more scant. An extensive body of literature tries to quantify the elasticity of labour supply to taxation (for a comprehensive review see (Meghir and Phillips 2010)). Nevertheless, few studies are geared specifically towards evaluating means-tested transfers and, even fewer address the welfare dependency hypothesis directly. Studies carried out in the early 1990's on lone parents in the UK have concluded that the existence of means-tested income support depressed the probability of employment among single women with children (Walker 1990; Ermisch and Wright 1991). Studies reviewing the French Revenu Minimum d'Insertion also found positive but moderate labour supply elasticities among welfare clients (Gurgand and Margolis 2002; Gurgand and Margolis 2008).

Using administrative data on social assistance recipients in Norway, Dahl and Lorentzen (2003) reject the welfare dependency hypothesis. Instead, they conclude that exit from social assistance to work is driven by labour market characteristics, the economic cycle, and relatively exogenous individual characteristics (such as age or household composition). Similarly, Ayala and Rodriguez (2007) find that long-term receipt of social assistance in Spain can be largely explained by ethnic minority status, health problems and household composition. Results from a study examining unemployment and social assistance receipt time series in Sweden point to social assistance receipt being determined by the economic cycle rather than clients purposefully choosing unemployment (Brännström and Stenberg 2007). Finally, scholarly research has documented a process of cycling between low-paid, insecure jobs and unemployment among social assistance recipients (Nicaise 2001; van Berkel 2007).

Summing up, positive labour supply elasticity's notwithstanding, there is little evidence to suggest European minimum income support schemes foster welfare dependency among their existing/ potential clients. Moreover, findings of large labour supply elasticities tend to be concentrated among studies examining single parents, a group that is more likely to face multiple barriers to employment.

Social assistance schemes may have harmful effects through mechanisms other than generous benefits. For example, since the majority of these programs make support conditional on passing an asset test, they might trigger a consumption of accumulated resources to become eligible. Such a behaviour would hurt a household's long-term economic welfare and potentially make it more dependent on state assistance (Shapiro and Wolff 2001). For illustration, many American states have a stringent asset test that makes families that own a relatively newer or better car ineligible for public aid (Lein and Schexnayder 2007; Allard 2009). Yet, access to a car is often vital in order to find or maintain employment, visit welfare offices, make child-care arrangements and so on. Thus, a strict asset test forces families to choose between going without a cash transfer they clearly need and giving up a valuable resource that is likely to severely hamper self-reliance.

Last but not least, because it effectively constitutes an income floor, social assistance may discourage asset accumulation as a form of income insurance, particularly among the low and very low income households. Even before having to face the eligibility test, low-income families may withhold from saving if they expect to be reliant on social assistance at some point in their lives. In turn, lower asset accumulation increases the probability of needing public aid and, at the same time, could limit the long-term income and earnings strategies.

Despite their contribution to the evaluation of means-tested programs research, studies of US welfare reform are not free of shortcomings (Moffitt and Ver Ploeg 1999; Blank 2002). Three are particularly relevant. First, so far the tendency has been to place the onus on moving from welfare to work and give less importance to income and well-being. Second, the large majority of these studies assess the impact of a package of measures in its entirety, rather than trying to disentangle the effects of the separate individual components. Last but not least, the

impact estimations often differ according to the way economic and programmatic changes accompanying welfare reform are modelled (Ziliak 2009).

The present research aims at contributing to the debate on the role of means-tested income support policies in addressing poverty, by investigating the possible positive or negative effects that current participation in a social assistance scheme might have on future outcomes in the Central European context. In particular, the focus is on ascertaining whether receipt of social assistance benefits lowers or raises income (and thus, the probability of being poor) in the subsequent years in eight Central and East European. In addition to replicating findings about the negative effect of social assistance on earnings, the present research also aims to take a step further by looking at measures of well-being such as disposable income. It also attempts to make a first step in investigating whether different program characteristics impact on the positive/ negative effects that social assistance programs might bring about for their clients.

5.3 DATA AND RESEARCH DESIGN

The study makes extensive use of the European Union Survey of Income and Living Conditions (EU-SILC), a four-year rotating panel which provides comparable detailed micro-level data on income, consumption and other household characteristics in the 27 Member States of the Union (see Chapter 4 for more information on EU-SILC). The following analyses rely on the second 2007 longitudinal release (UDBl07-2007-2). Three to four years[132] of panel data are available in the survey for CEE countries, i.e. 2005, 2006, and 2007. All analyses are carried out at the household level.

The MISSOC (Mutual Information System on Social Protection in the Central and Eastern European Countries (MISCEEC) 2002; Mutual Information System on Social Protection on EU Member States and the EEA (MISSOC) 2004) system of collecting information about EU Member States social protection provisions has been used to retrieve information about social assistance organization, main rules, financing and eligibility conditions. When needed, several other sources ((GVG) 2003; (GVG) 2003; (GVG) 2003; Pieters 2003) have been used to supplement information on social assistance design[133].

The main focus of the subsequent analyses consists of, on the one hand, establishing whether participation in an income support program has any (positive or negative) effects on future income and, on the other hand, looking into cross-national variation in the magnitude and direction of any potential impact. To gain a clearer picture of program effects, five types of resources are analysed separately, namely earnings, labour income, long-term benefits, non social assistance benefits and total disposable income. Traditionally, earnings have constituted the

[132] Four waves (2004-2007) are available for Estonia;
[133] On the design of social assistance in Central and Eastern Europe see Chapter 3;

focus of the various social assistance evaluation exercises. Work disincentives hypothesized by the standard labour supply models are likely to primarily affect earnings.

In addition to earnings, labour income includes income derived from self-employment, as well as the value of any household production for own consumption. The latter may be particularly important in countries with a large agricultural sector, such as Poland. Self-employment income and household production represent a special test case. Although they are usually included in the means-test that screens out the non-eligible claimants, from a practical perspective they are harder to observe and quantify. Therefore, the implicit 100% tax rate imposed by the means-test might, in effect, be lower for these types of income.

Long-term benefits include old-age and early old-age pensions, disability and survivor benefits. Generally, these layers of income protection are designed to kick in before social assistance. Thus, theoretically, there is no reason to expect social assistance receipt to influence a household's access to long-term benefits. However, in practice, social workers and social assistance administrators do attempt to transfer part of their caseload onto other benefit programs (Haney 2002; Jewell 2007).Particularly recipients that are deemed to be unemployable may be shifted unto more permanent types of income support, such as disability benefits. On the one hand, access to long-term benefits may improve a household's well-being by providing additional economic resources. On the other hand, a move onto long-term benefits might permanently push the recipient out of the labour force and leave her "excluded". A similar exercise has been carried out using a more encompassing measure of social protection benefits, i.e. all social protection benefits less social assistance.

Finally, to gauge the impact of social assistance receipt on well-being, net household disposable income is used. Disposable income includes all market income and social transfers, less taxes and social insurance contributions[134].

Assessing the impact of social assistance receipt on current income is very problematic in the absence of an experimental design. Since low income is a precondition to social assistance entitlement, the low income of recipients cannot be interpreted as a consequence of program participation. To avoid this problem, future income instead of current income is used throughout the following analyses. Future income is defined as annual income in the year subsequent to the one in which social assistance receipt is observed. Any effects that social assistance receipt might have on the five types of income discussed above may take place either directly or indirectly, by influencing social assistance receipt in the year income is measured.

Several models are estimated for each type of income. As a rule, because the original income variables are heavily skewed towards the bottom, they are normalized by taking the natural logarithm. In the case of earnings and labour income, both the probability of having positive income and the amount (in logarithmic form) conditional on positive income are modelled. Only the probability of receiving long-term benefits and other non-social assistance

[134] In defining net disposable income, I follow the same definitions as those used in EU-SILC.

benefits is examined. Finally, because very few households had negative or zero disposable income a separate estimation of the probability of having positive disposable income was not needed. All disposable income models concern potential program effects on the amount of future income (again, in logarithmic form).

In the absence of an experimental design[135], inference about the impact of receiving public aid has mainly relied on comparing different recipient groups across time. Comparisons of recipients and non-recipients have usually been considered too vulnerable to selection bias, i.e. individuals/families partaking in the program tend to differ in fundamental ways from individuals/families that do not, to allow for valid inferences. While statistical corrections may be applied to account for observable systematic differences, substantial bias may remain if any dimensions of variation are omitted. Most researchers agree that, even if recipients and non-recipients are matched on observable characteristics (relating to their demographic characteristics and material circumstances), selection bias remains due to unobserved heterogeneity (Moffitt and Ver Ploeg 1999; Barnow, Kaplan et al. 2000). The gist of the argument is the following: since receiving means-tested income support presupposes an initial self-driven act of claiming, by definition, recipients and eligible non-recipients must vary on some internal non-observable characteristics (for example, motivation, work ethic, expectations about the future etc.) related to income and employment.

While the confounding potential of selection issues is acknowledged, a different view is taken here. The absence of major changes in program rules during the period under study essentially precludes recipient-recipient comparisons[136][137]. As a result, the majority of results presented in this chapter are derived from comparisons between recipients and non-recipients. The analyses take advantage of the fact that the targeting of means-tested benefits is not an accurate process. To estimate program effects, it is assumed that some random variation exists in which households ultimately participate in the program. More specifically, due to administrative discretion and other idiosyncratic factors, some households that are eligible will be denied benefits[138] while some non-eligible households will receive it. If low income is "chosen" by some households that wish to "take advantage" of the existing means-tested benefits, explicitly modelling eligibility partly addresses this self-selection process. The eligibility variable has been

[135] In this case, the experiment would randomly choose to accept some eligible clients and to reject others; subsequent observations on the incomes of the two groups should yield an unbiased estimation of program participation on future income; however, there are clear ethical problems with this approach since some households are denied support extended to others, and thus, made worse off;

[136] Comparisons across times are not problem free; For example, comparing welfare leavers with stayers is vulnerable to confounding bias since, by definition, the leavers have experienced an improvement in their material situation; families that have been sanctioned off benefits are usually found to be in a worse position compared to those that continued to receive benefits (see Wu, C.-F. (2008). "Severity, timing and duration of welfare sanctions and the economic well-being of TANF families with children." Children and Youth Services Review **30**(1): 26-44.)

[137] One possibility would be to compare recipients in different countries; however, such comparisons would obviously be confounded by country-level differences; as the number of country-level units is very small (just eight), there is too little variation to allow for more complex models that explicitly incorporate country features.

[138] An important issue that cannot be addressed in the current framework due to unavailability of data is that of non take-up.

constructed using information about a household's income together with information about program rules[139]. If a household's total disposable income (before any social assistance receipt) is lower than the maximum benefit it would be entitled to given its characteristics, the household is deemed as eligible. Separate program effects are modelled for eligible and non-eligible households[140]. In examining potential program effects, both program participation and the benefit amounts are assessed.

Several household characteristics are used as control variables. Depending on the model, all or just some are used (for the exact details, see the section on results). A list of all covariates is presented below:

- single parenthood
- an indicator for having three or more children (large family)
- the number of children (18 years or younger) present in the household
- the number of young children (7 years old or younger) present in the household
- the maximum education level of a household member
- the total number of unemployment months experienced during the income reference period by all the adult members of the household
- the total number or inactivity months experienced during the income reference period by all the adult members of the household
- the number of unemployed adults in the household
- an urban/rural indicator[141]
- an asset indicator based on the tenure status (1 if the household owned the house in which it lived; 0 otherwise)
- the number of working-age adults in the household
- the number of retired persons in the household
- non-labour market income (in thousands of Euros)
- social security income (all benefits less social assistance) (in thousands of Euros)

Lastly, every model is estimated first on the entire sample and subsequently on a "low-income" sub-sample. The latter is defined as households in the bottom two quintiles of the income distribution[142] in the year in which income is measured (i.e. the year subsequent to the one in which social assistance receipt is observed). On the one hand, restricting the estimation sample to households in the two bottom quintiles of the income distribution considerably diminishes the number of observations and thus, statistical power. On the other hand, the low income non-recipient group is obviously a more appropriate comparison group than the entire

[139] To match the income reference period in the survey, policy rules refer to years 2003-2006; program rules cannot be fully simulated however; eligibility is modelled based on annual incomes and family characteristics.
[140] By estimating separate effects for eligible and non-eligible households, recipient eligible households are compared to eligible non-recipient ones.
[141] This indicator has been excluded in the estimation using the Slovenian data since it is entirely missing;
[142] Income refers to household net disposable income equivalised using the 'modified' OECD scale.

population. Only households that contain at least one working-age (18-64) adult are included in models of earnings and labour income.

Before interpreting the results, a few important caveats must be noted. First, all income information derived from surveys is vulnerable to measurement error. The problem is particularly relevant for means-tested benefits which often go unreported or underreported due to associated stigma. No attempt is made here to correct for measurement error. All information on incomes, including means-tested social assistance, is taken directly from the data without any corrections[143]. Second, while information available in the EU-SILC concerns annual income, eligibility for means-tested benefits is usually[144] assessed on a monthly basis. The arising time mismatch affects the constructed eligibility variable. More specifically, eligibility due to short spells of (very) low income (followed by periods of higher income) is ignored. Unfortunately, information required to reconstruct more accurately spells of social assistance eligibility and/or receipt is unavailable. Third, the eligibility variable is based solely on the income criterion. Whereas the income test is probably the most important part of means-testing in social assistance programs, other types of conditions, notably related to assets and work-related behaviour, are present in all eight social assistance schemes. Incorporating these requirements is particularly problematic, on the one hand due to lack of data, and on the other hand, due to inherent difficulties in observing these household features. Asset tests, when present, are usually ill-defined and highly dependent on administrative discretion in their implementation. Likewise, work related behaviour, particularly active job search, is plagued by asymmetric information problems and can be only imperfectly monitored.

Finally, the last step consists of trying to answer the question of what program features are most successful at boosting/harming the ability of their clients to escape poverty. To address this issue and in light of the low number of cases, Qualitative Comparative Analysis (QCA) and Fuzzy Sets are especially suited to carry out such a task. Altogether, four program dimensions on which comparable information is available have been included, namely centralization, benefit generosity, strictness of the means-test and availability of support services. Each of these dimensions represents a summary (expressed through the fuzzy score) of several indicators. Thus, the overall centralization score is based on central/local location off benefit setting, financing and delivery. The strictness of the means-test is reflects the existence of earnings disregards, other income disregards and asset disregards when establishing and renewing entitlement for the transfer. The support services dimension sums up the availability of child care, health-care benefits and housing benefits for recipients. Finally, the benefit generosity is based on benefit amounts for single persons as percentage of average gross earnings. Appendix 1 summarizes the components of each dimension and details the rules for assigning a fuzzy score.

[143] Eurostat does perform a series of checks and adjustments before releasing the data to the public; see guidelines and quality assessment reports http://circa.europa.eu/Public/irc/dsis/eusilc/library.

[144] While initial eligibility is based on previous monthly income in all eight countries, re-application periods vary between one month and six months; see chapter 3 on social assistance program rules.

5.4 SOCIAL ASSISTANCE AND ELIGIBILITY: SOME DESCRIPTIVES

Probabilities to receive social assistance, conditional on eligibility are shown in Table 5.1 below, separately for each country and each wave in the dataset. As expected, eligible households have, on average, much higher probabilities of receiving social assistance benefits in every country and every wave. Nevertheless, differences in the likelihood of receiving benefits between eligible and non-eligible households are heterogeneous across countries and across time. Notably, eligible households have larger probabilities of receipt relative to the non-eligible household population in the Czech Republic, Slovenia and the Slovak Republic, and lower probabilities in Latvia and Lithuania.

Table 5.1 Probability of receiving social assistance, conditional on eligibility

Year		CZ	EE	HU	LV	LT	PL	SI	SK
2004	Eligible		35.37						
	N		82						
	Non-eligible		3.69						
	N		1895						
2005	Eligible	48.02	35.59	45.45	27.84	20.34	31.19	60.47	56.34
	N	227	59	88	97	118	327	129	213
	Non-eligible	5.97	3.12	12.98	11.45	5.92	8.35	14.88	7.46
	N	4124	2306	3851	2550	2094	7794	5343	2398
2006	Eligible	47.57	34.41	39.94	18.46	21.15	49.42	66.46	56.95
	N	412	93	323	130	104	257	158	223
	Non-eligible	6.10	2.23	10.77	8.99	5.39	8.79	14.46	3.81
	N	7071	3806	5851	3392	3545	11052	7082	3516
2007	Eligible	49.20	33.90	36.74	14.12	13.70	48.95	65.59	54.61
	N	313	59	215	85	73	190	93	152
	Non-eligible	4.36	1.91	9.25	9.37	5.89	8.12	13.94	3.41
	N	6622	3561	5360	2808	3326	10175	5590	3193

Notes: Figures represent % of the reference group receiving benefits; N refers to the number of eligible, respectively non-eligible observations in the dataset; the actual time-period concerns the year prior to the data collection, i.e. 2003-2006.
Source: Own calculations based on EU-SILC 2007 longitudinal database.

Over time, the probability of receiving means-tested income support is relatively constant both for eligible and non-eligible households in the Czech Republic and Estonia, while dropping for both groups (but especially for the eligible) in Hungary, Latvia and Lithuania. The gap between eligible and non-eligible households increases both in Slovenia and in the Slovak

Republic, in the former due to rising probabilities of receipt for the eligible households while in the latter due to falling likelihood of receipt among the non-eligible population.

Next, Table 5.2 illustrates the average yearly social assistance transfers, conditional on receipt, for eligible and non-eligible households per country and wave. The first thing to notice is that the average annual benefit is much larger for eligible households compared to non-eligible ones in the Czech Republic, Slovenia, the Slovak Republic and Lithuania in 2005 and 2007. On the contrary, average amounts are very similar for the two types of households in Latvia, as well as in Estonia during 2004 and 2005 waves. Finally, a lower albeit clear disparity in favour of eligible households is visible in Hungary, Poland, and Estonia during the last two waves.

Table 5.2 Average social assistance benefit (in Euros), conditional on eligibility and receipt

Year		CZ	EE	HU	LV	LT	PL	SI	SK
2004	Eligible		414.37						
	N		29						
	Non-eligible		455.46						
	N		70						
2005	Eligible	1057.82	356.32	683.90	292.32	560.25	366.73	3301.23	1235.69
	N	109	21	40	27	24	102	78	120
	Non-eligible	454.15	322.33	432.43	143.59	177.77	241.94	1338.26	313.83
	N	246	72	500	292	124	631	795	179
2006	Eligible	1264.51	583.77	308.23	162.72	397.37	589.86	3352.22	1096.56
	N	196	32	129	24	22	127	105	127
	Non-eligible	489.50	290.24	193.14	156.58	143.04	340.55	1388.74	681.93
	N	431	85	630	305	191	971	1024	134
2007	Eligible	1472.52	549.05	319.78	191.80	524.29	717.86	3367.35	1261.72
	N	154	20	79	12	10	93	61	83
	Non-eligible	568.72	306.73	210.14	197.80	174.23	406.91	1296.49	524.74
	N	289	68	496	263	196	826	779	109

Notes: all figures are conditional on receipt of social assistance benefits; N refers to the number of eligible, respectively non-eligible recipients in the dataset; the actual time-period concerns the year prior to the data collection, i.e. 2003-2006.
Source: Own calculations based on the EU-SILC 2007 longitudinal dataset.

5.5 SOCIAL ASSISTANCE PARTICIPATION AND EARNINGS

Negative effects of social assistance benefits on recipients' wellbeing have been hypothesized to come about primarily through decreased earnings. Consequently, potential

effects of program participation on future earnings are analyzed first. Table 5.3 presents results for a very simple model in which the likelihood of having household earnings is predicted based on the lagged social assistance receipt, separately for eligible and non-eligible households (full results are shown in Table 1 of Appendix 3). Using all households, receipt of social assistance is associated with decreased likelihood of positive earnings in the next year among non-eligible households in all countries but Slovenia, Poland, and the Slovak Republic. In Slovenia, non eligible households that have received means-tested income support are more likely to have earnings in the following year. In the latter three, odds ratios for social assistance receipt are statistically non-significant and substantively, close to 1. Associations between social assistance receipt and the likelihood of positive future earnings vary somewhat in the case of eligible households. Thus, in Estonia, and the Slovak Republic, there is a strong negative link between social assistance receipt and the probability of having earnings in the following year. In these two countries, the correlation with social assistance receipt is stronger in the case of eligible households compared to non-eligible ones. In the remaining countries, estimated coefficients are statistically insignificant.

When the estimation sample is restricted to the bottom two quintiles of the income distribution, somewhat different results are obtained. The main coefficient for social assistance receipt is statistically zero everywhere but in the Czech Republic, Poland and Slovenia. In the Czech Republic, Poland and Slovenia, non-eligible households in the bottom two quintiles appear to be more likely to have some earnings when they have participated in the social assistance program in the previous year. Looking at eligible households, results are substantively the same as those obtained using the larger household sample. Thus, social assistance receipt and the probability of having positive earnings in the following year appear to be unrelated everywhere but in Estonia and the Slovak Republic where a negative relationship is clearly visible.

A more complex model, containing several household characteristics as covariates, yields relatively similar results (see Table 5.4 below; full estimation results are presented in Table 2 in Appendix 3). When basing the estimation on the entire sample of households, social assistance receipt diminishes the odds of having positive earnings in the subsequent year in the Czech Republic, Estonia, Hungary and Latvia. The strongest negative effects are registered in Estonia and Latvia. In Lithuania, Poland, the Czech and the Slovak Republic the probability of having earnings is decreased by receipt of social assistance in the previous year but results are statistically insignificant. Only in Slovenia is the effect positive but non-significant.

Table 5.3 Average marginal effects of social assistance receipt on the probability of having earnings in the following year (Simple model)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non – eligible households	-0,071***	0,068*	-0,104***	-0,033	-0,068***	-0,014	-0,075***	-0,041	-0,095***	-0,029	-0,008	0,088***	0,020*	0,088***	0,001	0,052
Eligible households	-0,050	-0,049	-0,320***	-0,244***	-0,031	-0,009	0,167	0,177	0,033	0,042	0,022	0,043	-0,052	-0,035	-0,228***	-0,224***
N	7512	2307	5447	1846	6235	2371	3310	1014	3627	1170	13019	5458	7849	2793	4336	1431

Notes: *p<0.05; **p<0.01; ***p<0.001
Source: Own calculations based on the EU-SILC 2007 longitudinal dataset.

Table 5.4 Average marginal effects of social assistance receipt on the probability of having earnings in the following year (Full Model)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households	-0,033*	0,012	-0,050**	-0,069	-0,039**	-0,013	-0,049**	-0,006	-0,023	0,008	-0,001	0,029	0,007	0,030*	-0,010	0,006
Eligible households	-0,002	-0,054	-0,044	-0,051	-0,010	0,019	0,125	0,144	0,049	0,031	0,100*	0,061	-0,015	-0,059	-0,106**	-0,091*
N	7512	2307	5443	1845	6231	2369	3310	1014	3627	1170	12699	5304	7827	2781	4334	1431

Notes: *p<0.05; **p<0.01; ***p<0.001
Source: Own calculations based on the EU-SILC 2007 longitudinal dataset.

Table 5.5 Average marginal effects of social assistance receipt and benefit amount on the probability of having earnings in the following year (Full Model)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible	-0.029	0.015	-0.053	-0.060	-0.045	-0.021	-0.061	-0.039	-0.025	-0.010	0.023	0.061*	0.002	0.025	-0.038	-0.017

households-Receipt			*		**		*									
Non-eligible households-amount	-0.017	-0.025	-0.045	-0.070	0.044	0.063	0.037	0.092	-0.190	-0.138	-0.109	-0.148	0.009	0.007	0.080	-0.109
Eligible households-receipt	0.025	-0.024	-0.013	0.022	0.050	0.088	0.027	0.005	0.231	0.289	0.071	0.036	0.030	0.025	0.017	0.096
Eligible households-amount	-0.008	-0.001	-0.128	-0.249	-0.237	-0.268	0.545	0.790	-0.920	-	0.101	0.110	-0.016	-0.025	-0.136 **	-0.185 ***
N	7512	2307	5443	1845	6231	2369	3310	1014	3627	1170	12699	5304	7827	2781	4334	1431

Notes: *p<0.05; **p<0.01; ***p<0.001; social assistance amounts are in thousands of Euros; social assistance amounts are entered centred around the country-wave mean; both receipt and amounts are lagged one period (i.e. year); a missing number indicated group size too small for reliable estimation
Source: Own calculations based on the EU-SILC 2007 longitudinal dataset.

Table 5.6 Impact of social assistance participation on total amount of household earnings (conditional on positive earnings)-Full Model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households-receipt	- 0,352 ***	- 0,150 ***	- 0,404 ***	- 0,275 ***	- 0,312 ***	- 0,171 ***	- 0,359 ***	- 0,356 **	- 0,330 ***	- 0,097	- 0,385 ***	- 0,226 **	- 0,143 ***	- 0,095 *	- 0,164 **	- 0,075
Eligible households-receipt	0.039	- 0.107	- 0.132	- 0.006	- 0.233	- 0.235	- 0.367	- 0.342	0.069	0.167	- 0.243	- 0.214	0.129	0.041	- 0.095	- 0.245
N	5971	1406	4768	1231	4984	1604	2850	638	2999	723	9291	3146	7120	2260	3668	999

Notes: *p<0.05; **p<0.01; ***p<0.001; social assistance receipt refers to the previous year.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

These findings refer to non-eligible households. In the case of eligible households, patterns vary slightly. Average marginal effects are different from zero only in Poland (where they are positive) and the Slovak Republic (where they are negative). However, it should be remembered that, generally, the low number of eligible households translates into low statistical power when estimating any effects for this subgroup.

Using the more restricted low-income subsample, the likelihood of having positive earnings among non-eligible households is unaffected[145] by social assistance receipt except in the Slovak Republic. In this case, households that have received means-tested public assistance benefits have-on average a 0.091 lower probability of having positive earnings as non-participating households.

The other household covariates generally have the expected signs. Thus, having been eligible to receive social assistance in the year prior, having three or more children, experiencing longer spells of unemployment or inactivity and the availability of increased social protection or non-labour, market income, all decrease the likelihood of having positive earnings. On the contrary, a higher educational level, the presence of more working age adults, the presence of children[146] and living in an urban area increase the chance of positive household earnings. Households where several adults have experienced short unemployment spells are more likely to have earnings compared to households where fewer adults have been unemployed for longer periods. Only in Poland is homeownership related to the likelihood of having earnings. Households that own their home are half as likely to have earnings compared to non-owners.

Finally, the last set of models having the likelihood of positive earnings as the dependent variable includes both program participation and the amount of received benefits. To account for the presence of any nonlinearities, both a linear and a squared term for benefit amount are included[147] (the full set of coefficients is found in Table 3 in Appendix 3). The term for social assistance receipt indicates the estimated effect at the mean of benefit amounts. Examining results for non-eligible households, receipt of average social assistance benefits significantly impacts on the likelihood of having earnings in Hungary, Latvia and Estonia (see Table 5.5). Depending on country, recipient households are between 55 and 35% less likely to have earnings in the following year. Average marginal effects for benefit amounts are non-significant in all countries. However, relatively large negative effects are registered in Poland and Lithuania. I half of the countries the registered impact is actually positive suggesting that increased amounts increase the subsequent average probability of positive earnings.

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[145] Again, odds ratios are relatively close to 1.

[146] This finding might be somewhat surprising on the surface. However, the number of children can be considered an indication of household 'age'. Very young families that are also more likely to not be integrated into the labor market will have no or fewer children. Remember that this effect is on top of having a large family, i.e. three or more children.

[147] The social assistance amount variable has been centred around the country-wave mean.

Table 5.7 Impact of social assistance participation and benefit amounts on total household earnings in the following year (conditional on positive earnings)-Full Model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households-receipt	-0.280***	-0.153**	-0.425***	-0.315***	-0.319***	-0.161**	-0.356***	-0.324**	-0.281***	-0.049	-0.389***	-0.241***	-0.135***	-0.093*	0.006	-0.031
Non-eligible households-amount	0.182**	-0.017	0.145	-0.283	-0.123	-0.004	-0.630	-1.304*	-0.134	-0.613	-0.114	-0.206	-0.013	-0.035	0.170	0.164
Non-eligible households-amount^2	0.000**	0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000***	0.000
Eligible households-receipt	0.073	-0.056	0.108	0.306	-0.220*	-0.206*	-0.338	-0.319	-0.024	0.084	-0.267*	-0.186	-0.204	-0.154	-0.006	-0.142
Eligible households-amount	-0.416***	-0.434***	1.563**	0.600	-0.085	-0.234	-1.272	-0.017	-0.571	-0.465	-0.907*	-0.838*	-0.063	-0.002	-0.002	-0.133
Eligible households-amount^2	0.000***	0.000*	-0.002***	-0.002***	0.000	0.000	0.001	0.000	0.000	0.000	0.001	0.000	0.000	0.000	0.000*	0.000
N																

Notes: *p<0.05; **p<0.01; ***p<0.001; social assistance amounts are in thousands of Euros; social assistance amounts are entered centred around the country-wave mean; both receipt and amounts are lagged one period (i.e. year).
Source: Own calculations based on the EU-SILC 2007 longitudinal dataset.

Results for eligible households do not indicate a statistically different from zero effect in any of the countries. However, very large (though insignificant) effects may be observed in Lithuania. This results though is unreliable to the very small number of eligible households in the model. Similarly to non-eligible households, coefficients for the benefit amount rarely pass the threshold of statistical significance. They do so only in the case of the Slovak Republic. Restricting the estimation sample to low-income households seriously reduces statistical power. In fact, no results are statistically significant in the case of non-eligible households. Yet, some indication of a negative association between social assistance and earnings in the following year can be found based on coefficient size in Estonia (both receipt and amount coefficients), Latvia (receipt of average benefits), Poland and Lithuania (benefit amounts). In the case of eligible households, higher benefits are negatively associated with the likelihood of positive earnings in the Slovak Republic. Insignificant, but large negative effects are also registered in Hungary and Estonia. On the contrary, in Poland and Latvia, findings (based both on receipt and benefit amounts) suggest potential positive effects

The other household characteristics included in the models have very similar effects to those presented in Table 5.4. Thus, previous eligibility, having a large family, longer unemployment and inactivity spells, as well as higher non-labour income (either market generated or social protection income) reduce the likelihood of having positive earnings. Conversely, higher educational qualifications, more children, more working age adults present in the household and urban residence raise the expected probability of having some earnings.

Tables 5.6 and 5.7 above (the full set of results may be found in Tables 4 and 5 in Appendix 3) present results from OLS models in which the amount of earnings (conditional on positive earnings) is modelled first using program participation only (Table 5.6) and subsequently adding the amount of received benefits (Table 5.7). Since only households with positive earnings are included in

the estimation, sample sizes are somewhat lower. Both sets of models control for the full set of household characteristics.

Among non-eligible households, receipt of means-tested assistance benefits is negatively associated with earnings in the following year in all countries (using the total sample of available households). The impact is strongest in Estonia, where earnings of recipient households are, on average, 33% lower compared to non-recipient households. At the opposite end, earnings of recipient households are 'only' 15% lower in Slovenia. Coefficients for eligible households are closer to zero, and due to the small sample sizes, statistically insignificant. Yet, they remain of noteworthy size, at least in Hungary, Latvia, Poland and possibly Estonia.

Using only low income households in the estimation yields much more moderate results. Relative to the previous results and with the exception of Latvia, social assistance receipt has a lower impact on predicted household earnings among non-eligible households. However, coefficients remain statistically significant everywhere but in Lithuania and the Slovak Republic.

Similar patterns are present in the case of eligible households. Substantively large negative effects (albeit statistically insignificant) remain in Hungary, Latvia, Poland and the Slovak Republic.

Substantively similar results emerge when using both receipt and the amount of earnings to predict future household earnings (Table 5.7). Receipt of average social assistance benefits by non-eligible households is negatively related to the amount of household earnings in the following year everywhere but in the Slovak Republic, using the first sample and everywhere but in Lithuania and the Slovak Republic using the second. The largest negative effects (in both samples) occur in Estonia, Latvia and Poland. When looking specifically at benefit amounts, significant results are visible only in the Czech Republic, using the first sample and Latvia, using the second. More generally, coefficients are negatively signed in both estimation samples in Hungary, Lithuania and Poland, while being positive in the Slovak Republic. Just as in the previous model, estimated coefficients for eligible households are much closer to zero. Some results are nonetheless worth noting. Thus, program participation is diminishing future household earnings in Hungary, Latvia, Poland (both samples), and possibly the Slovak Republic (second sample only).Only in Hungary and Poland are the coefficients statistically different from zero. A clear indication that eligible households receiving larger benefits exhibit worse future earnings is found in the Czech Republic and Poland (coefficients large and statistically significant in both samples). Conversely, relatively large positive effects are noticeable in Estonia and Lithuania (albeit only one out of four coefficients is statistically larger than zero).

Other household covariates have the expected signs (see the full set of results in Appendix 3) and generally confirm patterns found when modelling the likelihood (rather than the total amount) of earnings.

First, it should be noted that social assistance effects are much less likely to be found when using only low-income households in the estimation. This is not simply due to the lower number of observations in the sample and the consequent diminished statistical power. Estimated coefficients are much closer to zero suggesting that selection might be partially driving results in the larger sample. Focusing on results obtained based on only low-income household comparisons, a negative effect of social assistance on participation in employment is far from universal. In fact, the only country where persistent negative effects for both eligible and non-eligible households emerge across models is Estonia. Furthermore, there are few instances where the predicted detrimental impact of more generous benefits is confirmed. Findings vary somewhat across eligible and non-eligible households. Compared to non-eligible households, lower rates of employment participation after social assistance receipt of eligible households are registered in more countries. Moreover, there is noticeably more agreement between receipt and benefit amounts coefficients.

If the employment participation of social assistance programs is more visible in the case of eligible households, the opposite is true of the total earnings. Thus, receipt of means-tested income support impacts negatively future earnings of non-eligible households in all countries (the estimated effects are lower though in Lithuania, Latvia and the Slovak Republic).

Conversely, eligible households are negatively affected in only 3 to 4 countries. An additional negative effect of benefit amounts is does appear in about half of the countries.

5.6 SOCIAL ASSISTANCE AND LABOUR INCOME

Earnings represent only part of income generated through work. To gain a better understanding of the way social assistance affects work incentives, the analysis above is repeated, using a more encompassing measure of labour income. In addition to earnings, it includes net profits from self-employment, as well as the value of a household's non-market production. The latter components may be particularly important for countries where an important share of the population relies on agricultural incomes. Similarly to earnings, the provision of minimum income support might discourage work both thorough an income and a substitution effect. However, since self-employment income and production for own consumption are more difficult to assess by program administrators, the substitution effect should be milder.

A simple model where the difference in the probability of having positive labour income between households that have been program clients during the previous year and households that have not participated is presented in Table 5.8 below (estimated coefficients can be found in Table 1 of Appendix 4). Using the larger household sample, non-eligible households have a lower probability of positive labour income in the subsequent year when they have received social assistance benefits. The strongest negative effects are registered in the three Baltic States, Hungary and Poland while the mildest (and statistically insignificant) are registered in Slovenia and the Slovak Republic. Eligible households experience lower probabilities of positive labour income in the Czech Republic, Estonia, Poland, the Slovak Republic, and to a lesser extent in Lithuania and Slovenia.

When restricting the estimation sample to lower income households, social assistance receipt negatively impacts non-eligible households only in Latvia, Lithuania and Poland. In the remaining countries, average marginal effects are statistically non-significant and in the case of the Czech Republic and Estonia much closer to zero. Eligible households on the other hand display a reduced likelihood of having labour income when having been program clients in all countries but Hungary and Latvia. In all cases, predicted effects are large, between -0.096 to -0.246.

Holding constant other household characteristics does not change the substantive results (see Table 5.9 below and Table 2 in Appendix 4 for the full set of results). In the total household sample, non-eligible recipient households remain less likely to have positive labour income compared to non-recipients. The exception to this pattern is again the Slovak Republic where the effect is zero. Eligible households no longer appear to be influenced by social assistance participation in Poland (although the size of the coefficient is still relatively large), but they remain negatively affected in the Czech Republic, Estonia, Lithuania and the Slovak Republic.

Basing the estimation on the smaller low-income sample produces significant effects among non-eligible households only in Hungary, Slovenia and Lithuania. In all countries, social assistance clients are less likely to have positive labour income in the following year. However, with the exception of the Slovak Republic, the other countries have negative estimated average marginal effects. Lastly, negative effects are detectable in a large majority of countries in the case of eligible households as well. In the Czech Republic, Estonia, Hungary, Poland, and Lithuania, Slovenia and the Slovak Republic the estimated coefficients are negative and statistically significant. The average probability of positive labour income drops by between 0.058 and 0.146 when the household has received social assistance benefit the year prior. Only in Hungary and Latvia, no indication of a negative effect exists.

The last set of models estimating the likelihood of positive labour income uses both program participation and benefit amounts. Results for eligible and non-eligible households are shown in Table 5.10 above (for a full list of coefficients, see Table 3 in Appendix 4). Average marginal effects point towards large negative effects for non-eligible households in the Czech Republic, Hungary, Latvia and Slovenia. Estimated effects are somewhat smaller when using the low-income subsample. The amount of the benefit itself appears not to matter with the exception of Estonia and possibly the Slovak Republic. In Estonia, larger benefit amounts clearly diminish the average marginal probability of having positive labour income. In Hungary, Latvia and Slovenia the coefficient of benefit amounts is positive (albeit non-significant).

Similarly, eligible households appear to be negatively affected by social assistance receipt only in Hungary (benefit amounts in both samples), Lithuania (benefit amounts in the larger sample) and the Slovak Republic (benefit amounts in the smaller sample). However, it should be kept in mind that in many cases the number of eligible households is small and thus statistical power is reduced.

Both models containing social assistance receipt only and those including benefit amounts yield similar conclusions with regard to the influence of household characteristics. Moreover, while the magnitude of the effects varies somewhat across countries, substantive findings are akin. Thus, single parenthood and having more than three children present generally depress the probability of positive labour income. On the contrary, the presence of older children increases it, a pattern consistent with the one found when examining earnings. Not surprisingly, higher educational levels, as well as the presence of more working age adults raise the chance of positive labour income, while longer spells of unemployment and/ or inactivity diminish it. Again, the household is more likely to have some labour income if more adult experience shorter unemployment spells, rather than one adult experiencing longer ones. All things equal, urban residents are less likely to have labour income, whereas homeowners are generally more likely to do so.

Table 5.8 Average marginal effects of social assistance receipt on the probability of having labour income in the following year (Simple model)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households	-0,047 ***	0,018	-0,060 ***	-0,020	-0,081 ***	-0,040	-0,067 ***	-0,101 *	-0,092 ***	-0,107 *	-0,063 ***	-0,042 **	-0,006	-0,003	-0,018	0,016
Eligible households	-0,119 *	-0,117 *	-0,227 ***	-0,246 ***	-0,051	-0,036	0,097	0,10	-0,138 *	-0,159 *	-0,215 ***	-0,229 ***	-0,088 *	-0,096 *	-0,134 ***	-0,167 **
N	7512	2307	5447	1846	6235	2371	3310	1014	3627	1170	13019	5458	7849	2793	4336	1431

Notes:*p<0.05; **p<0.01; ***p<0.001.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Table 5.9 Average marginal effects of social assistance receipt on the probability of having labour income in the following year (Full model)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households	-0.035 **	-0.040	-0.025 *	-0.137	-0.053 ***	-0.036 *	-0.038 **	-0.038	-0.038 **	-0.064 *	-0.032 ***	-0.013	-0.010 *	-0,020 *	-0.028	0,0003
Eligible households	-0.042 *	-0.090 **	-0.058 **	-0.124 **	-0.015	0.006	0.062	0,113	-0.074 **	-0.146 **	-0.032	-0.051 *	-0.025	-0.058 *	-0.094 ***	-0,093 *
N	7512	2307	5443	1845	6231	2369	3310	1014	3627	1170	12699	5304	7827	2781	4334	1431

Notes:*p<0.05; **p<0.01; ***p<0.001.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Table 5.10 Average marginal effects of social assistance receipt and amounts on the probability of having labour income in the following year (Full model)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible	-0.035	-0.029	-0.006	0.018	-0.061	-0.038	-0.043	-0.068	-0.020	-0.052	-0.012	0.011	-0.112	-0.027	-0.043	-0.030

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
households-receipt	**				***		*						*	*		
Non-eligible households-amount	-0.001	-0.047	-0.237 *	-0.583 *	0,044	0,013	0,112	0,120	-0.357	-0.279	-0.081	-0.088	0,002	0.010	0.035	0.034
Eligible households-receipt	-0.009	-0.049	-0.118	-0.029	0.046	0.078	-0.056	-0.084	0.042	0.017	-0.020	-0.040	-0,009	-0.029	-0.053	-0.008
Eligible households-amount	-0.022	-0.020	-0.122	-0.275	-0,244 **	-0,285 **	0,872	-	-0.616 **	-	-0.007	0,018	-0.005	-0.008	-0.073 *	-0.109 *
N	7512	2307	5443	1845	6231	2369	3310	1014	3627	1170	12699	5304	7827	2781	4334	1431

Notes:*p<0.05; **p<0.01; ***p<0.001; social assistance benefit amounts are centred on the country-wave mean and entered as thousands of Euros. A missing number indicated subgroup too small to estimation to be accurate.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Table 5.11 Impact of social assistance participation on total household labour income in the following year-Full Model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households	-0.364 ***	-0.071	-0.492 ***	-0.350 **	-0.384 ***	-0.248 ***	-0.373 ***	-0.323 **	-0.290 ***	-0.072	-0.393 ***	-0.207 ***	-0.156 ***	-0.123 *	-0.146 *	-0.113
Eligible households	-0.168	-0.354 *	-0.370	-0.227	-0.288 *	-0.278 *	-0.173	-0.082	0.151	0.067	-0.262 *	-0.215	-0.086	-0.319	-0.352 **	-0.544 ***
N	6799	1797	5067	1497	5251	1714	3034	772	3274	887	10730	4073	7661	2648	3957	1152

Notes:*p<0.05; **p<0.01; ***p<0.001;

Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Table 5.12 Impact of social assistance participation and benefit amounts on total household labour income in the following year-Full Model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households-receipt	-0.326***	0.056	-0.534***	-0.400**	-0.318***	0.069	-0.374***	-0.294**	-0.283**	0.050	-0.404***	-0.232***	-0.143***	0.113	0.040	0.083
Non-eligible households-amount	0.075	0.010	0.042	-0.475	0.146	0.581*	-0.584	-1.422**	0.190	-0.577	0.199	-0.309*	0.009	0.049	0.167	0.152
Non-eligible households-amount^2	0.000*	0.000	0.000	0.000	0.000	-0.001***	0.000	0.001*	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Eligible households-receipt	-0.134	-0.269	-0.304	-0.140	-0.271*	-0.244*	-0.148	-0.065	0.041	-0.012	-0.285*	-0.198	0.026	-0.124	-0.258	-0.406*
Eligible households-amount	-0.354	-0.309	1.145	0.455	-0.221	-0.267	-0.216	0.694	0.180	0.463	-0.836	-0.803	-0.103	-0.088	-0.072	-0.203
Eligible households-amount^2	0.000*	0.000	-0.001*	-0.001	0.000	0.000	0.000	-0.001	0.000	0.000	0.001	0.000	0.000	0.000	0.000	0.000
N	6799	1797	5067	1497	5251	1714	3034	772	3274	887	10730	4073	7661	2648	3957	1152

Notes:*p<0.05; **p<0.01; ***p<0.001; social assistance benefit amounts are centred on the country-wave mean and entered as thousands of Euros.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Finally, as expected, social security income is negatively related to the probability of positive labour income. To a lesser extent, the same is true of non-labour, market income. However, the latter pattern is clearly visible mostly when using the second, low-income household sample.

The impact of social assistance receipt on average yearly household labour income[148] is summarized in Tables 5.11 and 5.12 (for the full set of results see Tables 4 and 5 in Appendix 4). Significant negative effects are noticeable among non-eligible households in every country included in the analysis in the first set of models. The biggest occur in Estonia, while they are much more moderate in Slovenia and the Slovak Republic. Eligible households appear to be less at risk of having lower labour income after social assistance participation, at least in the Czech Republic, Latvia, Lithuania and Slovenia. Eligible households that have been program clients continue to exhibit substantially lower levels of labour income in Hungary, Poland, the Slovak Republic, and Estonia, although in the latter the coefficient is too imprecisely estimated for a no effect hypothesis to be ruled out.

Patterns are to some extent reversed when the estimation is carried out using low-income households only. A large drop in average labour income levels is associated with social assistance receipt by non-eligible households in Estonia, Hungary, Latvia, Poland, and to a lesser extent Slovenia, but is no longer present in the Czech and Slovak Republics, as well as Lithuania. On the contrary, eligible households are predicted to have significantly lower levels of labour income after having been program clients in the Czech Republic, Hungary and the Slovak Republic. Relatively large but statistically insignificant effects are registered in Estonia, Slovenia and Poland. Only in Latvia and Lithuania is the size of the social assistance receipt coefficient close to zero.

A more complex approach takes into account both program participation and the amount of the received benefits (Table 5.12). The receipt coefficient may be interpreted as the average change in labour income levels after receipt of average benefits. It points to a sizeable fall in average labour income levels of non-eligible households everywhere but in the Slovak Republic (results pertaining to the larger sample). Once more, the largest differences are observable in Estonia and the smallest in Slovenia. Actual benefit amounts appear to be less important than participation into the program itself. In fact, they fail to achieve statistical significance in all countries. Based on the estimated size however, higher benefits are potentially more detrimental in Latvia and possibly Poland, while higher benefits might be beneficial in Hungary, Lithuania and the Slovak Republic.

Analyzing results for eligible households (again using the entire sample of households), a negative effect of program participation is present in Hungary, Poland and possibly Estonia and the Slovak Republic. Standard errors for benefit amounts are again too large to allow for statistical significance. Nonetheless, higher social assistance benefits are predicted to substantially

[148] Conditional on positive labour income.

reduce average labour income levels in the Czech Republic, Hungary, Latvia, and Poland. They are predicted to increase average labour income in Estonia.

Using only low-income households in the estimation leads to much lower coefficients for program participation of non-eligible households in some countries. Considerable negative effects are still present though in Estonia, Latvia, and Poland. More generous benefits are expected to reduce household labour income in Latvia, Poland and potentially also in Estonia and Lithuania (coefficients not significant in the latter two). In Hungary and perhaps also in the Slovak Republic, larger benefits are associated with higher future levels of labour income.

Eligible households are also predicted to have lower labour incomes after being social assistance clients, in Hungary, the Slovak Republic and possibly also in the Czech Republic and Poland. Estimated effects for benefit amounts are again nowhere statistically significant. However, they are large and negative in the Czech Republic, Hungary, Poland and the Slovak Republic, while being sizeable and positive in the three Baltic States.

Finally, other household characteristics have the same impact as when modelling the probability of positive labour income. There are two exceptions, namely the number of unemployed adults generally no longer matters for predicting level of labour income[149], and urban residents have, on average, higher labour income levels.

Summing up, there are indications that previous receipt of public assistance benefits discourages labour market participation. With few exceptions, results are much more consistent across samples than in the case of earnings. Furthermore, negative effects are widespread both among eligible and non-eligible households. Benefit amounts on the other hand do not conform to predictions derived from standard labour supply theory, especially in the case of non-eligible households. In fact, only in Estonia is a negative effect registered and in four out of eight countries the coefficients are positive. Eligible households however appear to respond to increased benefits by reducing labour market participation at least one country and possibly in three.

As regards total labour income, findings are relatively consistent across models. Thus, in Estonia, Latvia, and Poland, all results indicate negative effects on non-eligible households of both participation and benefit amounts. Similarly, negative effects emerge across the board for eligible households in the Czech Republic, Hungary, Poland and the Slovak Republic.

5.7 SOCIAL ASSISTANCE AND RECEIPT OF LONG-TERM BENEFITS

Having looked into the connections between earnings/labour income and social assistance, the next step is to examine links between social assistance benefits and other types of income. In principle, public assistance is conceived as a temporary form of support. Although in

[149] The total length of the unemployment spells does.

none of the eight CEE countries does a formal time limit on benefit receipt exist, various factors may put pressure on social workers and program administrators to reduce caseloads (Jewell 2007; van Berkel 2007). One way this objective may be achieved is by transferring recipients, especially less employable ones, onto other, more permanent forms of income support. Alternatively, social assistance may used as a stopgap measure before qualifying for longer term benefits. To investigate these possibilities, a set of models has been estimated using social assistance receipt to predict a change in receipt of long-term benefits. Results are summarized in Table5.13 (for a full set of results see Table 1 in Appendix 5). Once again, effects have been estimated both for eligible and non-eligible households[150].

Only in Hungary is there clear evidence that social assistance is used as an entry gate to other benefits. Non-eligible households that have received social assistance benefits are two and two and a half as likely to begin receiving long-term benefits in the following year, depending on which sample is used. Similar findings are present to some extent in the Slovak Republic (only in the lower-income sample is the coefficient statistically different from zero), and Estonia (both samples yield positive but insignificant coefficients). Eligible households are more likely to start receiving long-term benefits after having been social assistance clients in Hungary, and possibly Estonia. They are less likely to start receiving benefits in the Czech Republic, Lithuania, and Slovenia although in all three countries recipient-non-recipients differences may be attributed to random variation.

Household features do play a role in determining the odds of starting to receive long-term benefits[151]. Patterns are relatively similar across countries. Thus, single parent households are more likely to collect long-term benefit in Poland and possibly Slovenia. The same holds for large families, especially in Estonia, Poland, but also in Hungary and Lithuania. The presence of children and higher educational levels diminish the likelihood of obtaining such benefits. Finally, not surprisingly, homeowners are more likely to receive long-term benefits, a pattern undoubtedly related to older households being more likely to own their home.

The hypothesis of client shifting from social assistance support onto long-term benefits is not confirmed, with the exception of Hungary, and possibly Estonia. In these two countries, both samples suggest a higher likelihood of recipients of joining longer-term forms of income support, both in the case of non-eligible and that of eligible households. In the remaining countries, social assistance receipt is either unrelated or is actually decreasing the likelihood of becoming a long-term benefit recipient (in the Czech Republic, Lithuania, and Slovenia), though results are not significant.

[150] As before, eligibility refers to social assistance benefits.

[151] In modelling the odds of starting to receive long-term benefits, the amount of non-labour income and social protection have been dropped.

Table 5.13 Odds ratios of receiving long-term benefits when having received social assistance benefits

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households	1.281	1.103	1.494	1.400	2.673***	2.513**	0.827	1.036	1.531	0.733	1.058	1.055	1.101	1.121	1.826	3.364*
Eligible households	0.678	0.625	2.174	2.930	1.913	2.273*	1.039	1.020	0.695	0.293	1.294	0.923	0.690	0.423	0.945	1.566
N	4999	1478	3495	993	3684	1350	2102	573	2241	655	7184	2987	4601	1488	2727	782

Notes:*p<0.05;**p<0.01; ***p<0.001.
Source: Own calculations based on the EU-SILC longitudinal database.

Table 5.14 Odds ratios of receiving social protection income when having received social assistance benefits

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households	2.038**	1.152	1.877	0.728	1.817**	1.551	1.236	1.315	2.176**	1.836	1.642***	1.226	0.647**	0.530**	1.014	0.729
Eligible households	0.823	0.634	5.783**	7.190**	0.899	0.697	4.619*	5.302*	2.480	2.401	0.919	0.795	1.943	1.067	0.588	0.438
N	10723	2246	7418	3010	9005	3564	4936	1971	5264	1062	16987	6834	9939	3922	5752	1361

Notes:*p<0.05;**p<0.01; ***p<0.001.
Source: Own calculations based on the EU-SILC longitudinal database.

Table 5.15 Average annual amount of social protection incomes based on social assistance receipt

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households	0.127***	0.093**	0.105	-0.013	0.048*	0.045	0.113***	0.041	-0.038	-0.014	-0.064*	0.089**	0.161***	0.060*	0.007	-0.091
Eligible households	0.004	-0.046	0.107	0.050	0.057	0.122	-0.106	-0.298	-0.275	-0.364	-0.227	-0.009	-0.147	-0.198	-0.237*	-0.257*
N	8415	3932	6232	2728	7770	3283	4051	1701	3790	1736	12949	5740	8479	3586	4944	2098

Notes:*p<0.05;**p<0.01; ***p<0.001.
Source: Own calculations based on the EU-SILC longitudinal database.

5.8 SOCIAL ASSISTANCE AND RECEIPT OF SOCIAL PROTECTION INCOME

A more encompassing measure of social protection income is used in Tables 5.14 and 5.15. In addition to long-term benefits, it incorporates all types of shorter term benefits (such as child benefits and allowances, maternity and child-raising payments, grants, scholarships, housing allowances etc.), with the exception of social assistance itself and sickness insurance benefits[152]. Table 5.13 illustrates expected changes in the likelihood of receiving social protection income after social assistance receipt for both eligible and non-eligible households (for a full set of results see Table 1 in Appendix 6).

Utilizing the entire sample of households generates large positive effects among non-eligible households in the Czech Republic, Hungary and Poland. Recipient households are between 60% (Poland) and 110% (Lithuania) more likely to start receiving social protection income after having been social assistance clients. A large but non-significant effect is registered in Estonia. Contrarily, in Slovenia, non-eligible recipient households are less likely to start receiving social protection income. Eligible households are clearly more likely to start receiving social protection income in Estonia, Latvia, and perhaps also in Lithuania and Slovenia. In the Slovak Republic on the other hand, they appear about half as likely as non-recipients to start receiving social protection income.

Results obtained using exclusively low-income households in the estimation vary to some extent. Non-eligible households are still more likely to begin receiving social protection income in the following year in Hungary and Lithuania, but the result is no longer significant statistically. On the contrary, the significantly lower likelihood of receiving this type of income remains in Slovenia. Eligible households continue to display a strong positive link between social assistance participation and receipt of social protection income in the following year in Estonia and Latvia. A negative relationship, albeit insignificant, is visible in the Czech and Slovak Republics.

A different approach consists of focusing on social assistance participation effects on the amounts of social protection received rather than on receipt itself. The main findings coming out of such an exercise are shown in Table 5.15 (the full set of results is found in Table 2 of Appendix 6). All outcomes are conditional on social protection income being positive. In the Czech Republic, Hungary, Latvia, Poland, and Slovenia, non-eligible households experience an increase in social protection benefits after participating in social assistance programs. However, with the exception of Slovenia, predicted increases are modest. Moreover, when limiting the estimation sample to low-income households, effects are much lower and above statistical significance thresholds only in the Czech Republic and Poland.

[152] Sickness insurance benefits are usually tightly linked to employment, they are often paid by employers during the first days of the claim and are strictly limited in time; moreover, they have been added up to other types of income in some countries (Lithuania); as a result, they have been excluded from the constructed measure of social protection income.

Eligible households do not appear to profit from social assistance participation by increasing their social protection income in the following year. On the contrary, recipient eligible households are expected to receive less social protection income compared to eligible non-recipient ones, particularly in Latvia, Lithuania, Poland (only when basing the estimation on all households), Slovenia and the Slovak Republic. Only in the Slovak Republic, is this result not attributable to chance.

Since social protection income comprises benefits that are directed primarily at the young and at the old, it is not surprising that both the number of children and the number of retired raise the odds of receiving/average amounts of social protection income. Obviously previous receipt/amounts of social protection income impact positively on current amounts. Single parents are more likely to receive some social protection benefits but the average disbursed amounts are lower in the Czech Republic. Lower average amounts for households containing single parents also crop up in Estonia, Hungary, Latvia, and the Slovak Republic.

Evidence of social assistance serving as a gateway to other social protection benefit is limited. Only in Hungary and the three Baltic States is there indication of increased likelihood of social protection income, and in none of the countries are both eligible and non-eligible households affected. Support for the hypothesis of social assistance effects is more widespread in the case of changes in received social protection income. Non-eligible households appear to experience small increases in other social protection income in the Czech Republic, Poland and Slovenia. For eligible households however, all notable effects go into the opposite direction.

5.9 SOCIAL ASSISTANCE AND DISPOSABLE INCOME

Ultimately, the focal interest of this chapter lies in assessing the impact of means-tested minimum income support on recipients' future well-being. To that end, the final analytical section looks at social assistance effects on household net equivalised[153] disposable income. Equivalised net disposable income is the widest measure of economic resources used in analyses of poverty, inequality and income distribution, more generally. While far from ideal, net disposable income represent an arguably more complete measure of economic resources than either earnings or labour income.

To evaluate whether the partial negative impact of social assistance on earnings and labour income spill over onto disposable income, Table 5.16 presents unconditional differences in the average disposable income of former recipients and non-recipients, separately for eligible and non-eligible households (the full set of coefficient can be found in Table 1 of Appendix 7). For non-eligible households, social assistance receipt is associated with lower net equivalised disposable income in every country when examining all households, and all countries but Latvia

[153] The 'modified' OECD equivalence scale is used.

and Lithuania when examining low-income households only. Average discrepancies between recipient and non-recipient households are particularly large in Estonia, Poland and Lithuania (in the larger sample).

In the case of eligible households, average gaps in income between recipient and non-recipient households are much lower, but they remain significantly negative in the Czech Republic, Estonia, the Slovak Republic, and Hungary and Poland (larger sample only). In Slovenia, eligible households have, on average, higher equivalised disposable incomes if they have received social assistance in the previous year. The coefficient is very large and statistically significant in both samples.

In a second step, program participation effects on future equivalsied disposable income have been estimated conditional on household characteristics (see Table 2 in Appendix 7 for a full set of results). Table 5.17 displays estimated effects for eligible and non-eligible households. Adding household features does not change substantively the findings shown in Table 5.16. Non-eligible recipient households continue to show evidence of lower average disposable incomes in both samples in the Czech Republic, Estonia, Hungary, Poland, Slovenia, and the Slovak Republic. Estimated coefficients are however smaller compared to those in Table 5.16. Likewise, in Lithuania and Latvia, a significant negative difference between the incomes of recipient and non-recipient non-eligible households exists only when all households are used in the analysis.

Eligible households that have been social assistance clients have significantly lower amounts of disposable income in the following year, a result consistent across samples in the Czech Republic, Estonia, and the Slovak Republic. In Hungary and Poland, lower average levels of disposable income are observed only in the larger sample. Last but not least, receipt of social assistance benefits brings about significantly higher levels of disposable income in the following year in Slovenia. Again, the result holds in both samples.

Table 5.18 presents results of OLS regressions containing both program participation and benefit amounts among the predictors (the full set of results may be found in Table 3 in Appendix 7). As usual, coefficients for receipt may be interpreted as expected impacts when the household receives average benefits. Average equivalised disposable income is lower among non-eligible households that have been program clients the year prior. With two exceptions, the differences are large and not attributable to sampling variation. In the Latvian and Lithuanian low-income subsamples, no recipient-non-recipient discrepancies emerge. Among the remaining countries, the largest negative effects are registered in the Czech Republic, Estonia and Poland. Benefit amounts appear to matter less than program participation itself. With the exception of the Slovak Republic however, they remain negative, although statistically different from zero only in the Czech low-income subsample. The Czech Republic aside, sizeable negative coefficients are also found in the three Baltic States.

Large negative effects of social assistance participation are visible among eligible households as well. In the Czech Republic, Estonia and the Slovak Republic, the lower expected

disposable income of former social assistance clients is consistent across samples. In Hungary and Poland on the other hand, the disadvantage of recipient households is observable only in the larger household sample. In Latvia, Lithuania and Slovenia, eligible recipient households have, on average, higher disposable equivalised incomes in the following year. Nonetheless, in none of the countries is the result statistically significant. The size of the social assistance benefits appears to play a role in shaping future disposable income levels, except in Hungary and the Slovak Republic. Effects are however too imprecisely estimated to reach statistical significance, except one of the results in the Czech Republic. More generous social assistance benefits appear to trigger detrimental outcomes in the Czech Republic, Lithuania and Latvia, especially when the estimation is based on all available households. On the contrary, in Poland and Slovenia they are associated with increased levels of disposable income (only in Slovenia is the result statistically significant).

The influence of household characteristics on disposable income is consistent with results documented in the literature. Single parent and large family households have lower levels of disposable income, all other things equal. A larger number of adults, as well as a larger number of retirees raise the expected level of disposable income (note that this is not merely a mechanical effect since disposable income is equivalised to account for household size). Urban residents and households with superior educational qualifications are also more likely to dispose of a larger net equivalised disposable income. Finally, as expected, the disposable income in the previous year is a strong predictor of current disposable income levels.

Overall, findings are consistent in pointing towards small to moderate effects of social assistance participation among non-eligible households. Benefit amounts, on the other hand, do not appear to play a role. Not only are benefit amounts effects statistically insignificant, they are substantively (with the possible exception of Latvia and Lithuania) very close to zero. The picture is more mixed in the case of eligible households. Small to moderate negative effects deriving from being a program client are detectable in the Czech Republic, Estonia and the Slovak Republic. On the other hand, benefit amounts (again with the exception of Lithuania) are either zero or positive. Hence, the hypothesised detrimental impact of higher social assistance benefits fails to be confirmed.

5.10 DISCUSSION

Pulling together the different results into a coherent picture of program effects is not an easy task. The first thing to notice is that results are relatively consistent when comparing estimated impacts of participation across models, but that they differ depending on the household eligibility status. It should be remembered at this point that the number of eligible recipient households is fairly small (at least in some countries). Consequently, results derived for

Table 5.16 Average equivalsied disposable income differences between recipient and non-recipient households

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households	-0.332***	-0.133***	-0.493***	-0.207***	-0.302***	-0.095***	-0.318***	0.010	-0.432***	-0.024	-0.485***	-0.118***	-0.190***	-0.039**	-0.185***	-0.093***
Eligible households	-0.151***	-0.119**	-0.589***	-0.282*	-0.196**	-0.083	0.013	0.152	0.119	0.148	-0.204**	0.063	0.310*	0.403**	-0.297***	-0.267***
N	10722	4255	7387	2983	8997	3553	4888	1923	5250	2115	17322	6979	9959	3932	5752	2276

Notes:*p<0.05;**p<0.01; ***p<0.001; disposable income entered in logarithmic form.
Source: Own calculations based on the EU-SILC longitudinal database.

Table 5.17 Social assistance participation effects on future equivalised disposable income

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households	-0.196***	-0.084***	-0.243***	-0.109**	-0.171***	-0.077***	-0.132***	-0.004	-0.145***	-0.006	-0.209***	-0.067***	-0.129***	-0.083***	-0.183***	-0.083***
Eligible households	-0.165***	-0.102**	-0.607***	-0.293*	-0.164**	-0.077	0.084	0.141	0.121	0.104	-0.233**	0.012	0.282	0.391**	-0.268***	-0.249***
N	10722	4255	7358	2974	8993	3552	4888	1923	5248	2114	16964	6816	9935	3919	5748	2274

Notes:*p<0.05;**p<0.01; ***p<0.001; disposable income entered in logarithmic form.
Source: Own calculations based on the EU-SILC longitudinal database.

Table 5.18 Social assistance participation and benefit amounts effects on future equivalised disposable income

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Non-eligible households-receipt	-0.202***	-0.104***	-0.229***	-0.111**	-0.173***	-0.063**	-0.139***	-0.008	-0.137***	-0.006	-0.208***	-0.066***	-0.124**	-0.077***	-0.180***	-0.093**
Non-eligible households-amount	-0.043	-0.073*	-0.075	-0.012	-0.003	0.012	-0.197	-0.120	-0.018	-0.143	-0.021	0.023	-0.001	-0.001	0.054	0.061
Non-eligible households-amount^2	0.000	0.000	0.000	0.000	0.000	0.000*	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Eligible households-receipt	-0.169***	-0.113**	-0.611***	-0.292*	-0.158**	-0.072	0.102	0.158	0.107	0.098	-0.271***	-0.012	0.189	0.249	-0.226***	-0.234***
Eligible households-amount	-0.080*	-0.028	0.564	0.462	-0.078	0.004	-0.706	-0.032	-0.499	-0.198	0.313	0.262	0.097*	0.140**	0.081	0.088
Eligible households-amount^2	0.000*	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000*	0.000*
N	10722	4255	7358	2974	8993	3552	4888	1923	5248	2114	16964	6816	9935	3919	5748	2274

Notes:*p<0.05;**p<0.01; ***p<0.001; disposable income entered in logarithmic form; social assistance amounts are centred on the country mean and entered as thousands of Euros.
Source: Own calculations based on the EU-SILC longitudinal database.

eligible households may be somewhat unreliable[154]. These shortcomings notwithstanding, some general conclusions are worth pointing out. First, negative effects of social assistance are not universal although they do appear in a number of countries. Negative effects are visible not only for earnings but also for labour income and disposable equivalised income. Second, being a social assistance client, i.e. participation, and the amount of the received benefits clearly must be separated. Benefit amounts are generally much less likely to impact on future incomes compared to receipt of means-tested support itself. Even when they do have an impact, it is often more modest in size or in the opposite direction as to the one hypothesized[155]. These findings suggest that any negative effects that means-tested income support schemes may have on their clients are not necessarily derived through the work disincentives hypothesized by standard labour supply theory. Scarring due to stigma, the need to comply with intrusive or burdening administrative demands, or other restrictions may have a more important role to play than the work disincentives generated by the benefits themselves. Third, there is substantive heterogeneity in effects between eligible and non-eligible households. In particular, negative effects on participation in employment and/or labour market are more likely to be detected among eligible households. If this discrepancy is due to household characteristics, these have to be over and above the household features included in the models. Fourth, work disincentives stemming from means-tested income support appear to play a larger role on the intensive rather than the extensive margin. Both the likelihood of positive earnings and the likelihood of positive labour income are less sensitive to benefit receipt compared to earnings and labour income amounts. The four points mentioned so far are general in nature. The next section looks more in depth at patterns of variation across countries.

5.11 LINKING PROGRAM DESIGN TO OUTCOMES

There is considerable variation across countries both regarding their social assistance set-up and the outcomes these means-tested cash transfers bring about. In principle, such policy variation presents the opportunity of isolating and roughly quantifying policy effects. The main problem confronting this type of cross-sectional policy impact analysis is the simultaneous variation in the economic, social, and policy environments that accompany program differentiation. Moreover, as most cross-national research, this study suffers from a problem of small N at the country level, thereby reducing the degrees of freedom available for introducing country level covariates.

[154] The existence of this problem is also highlighted by the very large standard errors associated with coefficients for eligible households in some countries.

[155] Variation in benefit amounts is also due to differential length of the participation spell; as such, it is all the more surprising that benefit amounts have such a low impact.

A relatively new method particularly suited for medium-size N studies is Qualitative Comparative Analysis (QCA) and its extension to continuous variables, Fuzzy Set methods (Ragin 1987; Ragin 2000; Ragin 2008). QCA/Fuzzy Sets relies on the principles of necessity and sufficiency rather than on co-variation for inference making. As such, it is particularly well suited to capture complex patterns and configurations rather than linear or non-linear relationships between any two variables. It is also better suited at incorporating more qualitative data in the analysis, through the construction of the fuzzy scores. QCA/Fuzzy Set methods, however, cannot deal very well with limited diversity (the equivalent of limited degrees of freedom in standard quantitative analyses). As a result, the number of case (in this case country) characteristics that can be introduced in the analysis remains dependent on the size of N[156].

In the following paragraphs, the results of a simple fuzzy set analysis are reported. Three separate outcomes are examined. More specifically, negative effects of social assistance participation on participation in employment, likelihood of positive labour income and on equivalised disposable income are examined in conjunction with four program characteristics. No analysis is carried out on social assistance impacts on the amount of earnings or labour income. As a negative link is clearly visible in all countries, there is not enough variation to investigate. Fuzzy scores have been created based on the estimated coefficients for social assistance participation in Tables 5.4 and 5.9. The scores for eligible and non-eligible households have been combined by constructing a weighted average[157] that has subsequently been translated into a fuzzy score (see the Appendix 2 for rules of deriving the country fuzzy score).

In conjunction with program effects, four program dimensions[158] are examined, namely centralization, benefit generosity, strictness of the means-test and support services. The country fuzzy scores for each dimension and the outcomes are given in Table 5.19 (Appendix 2 describes the rules that have been used to construct the fuzzy scores for all seven variables).

Table 5.19 Fuzzy scores for social assistance program characteristics and outcomes

Country	Centralization score	Benefit generosity score	Means-test score	Support services score	Earnings>0	Labour income>0	Eq. Disposable income
CZ	0.951	0.836	0.487	0.6	0.276	0.989	0.910
EE	0.759	0.191	0.326	0.18	0.948	0.858	0.954
HU	0.686	0.309	0.745	0.55	0.474	0.892	0.796
LV	0.146	0.191	0.900	0.55	0.194	0.514	0.107
LT	0.759	0.197	0.852	0.55	0.241	1	0.120

[156] More specifically, QCA is vulnerable to 'missing configurations', i.e. combinations of characteristics for which no case exists; the introduction of M characteristics results in 2^M possible configurations that have to be covered; as a result $N>=2^M$.

[157] The weights are the number of eligible and non-eligible households which are in the respective estimation samples; fuzzy scores are built based on results estimated on the bottom 40%.

[158] A thorough discussion of program characteristics can be found in Chapter 3.

PL	0.146	0.354	0.878	0.3	0.103	0.544	0.682
SK	0.951	0.530	0.745	0.6	0.136	0.732	0.653
SI	0.951	0.891	0.216	0.8	0.225	0.621	0.926

Source: based on MISSOC 2004, MISCEEC, ((GVG) 2003; (GVG) 2003; (GVG) 2003; Pieters 2003), and Tables 5. 4 and 5.9 above (results obtained using the bottom 40% of the sample);

The eight countries in the dataset represent six out of the sixteen possible configurations. Therefore, limited diversity is severe and likely to influence results. Only sufficient conditions analysis is performed, as the isolation of necessary conditions is biased when limited diversity is present. The minimized solutions for the three outcomes discussed above, as well as their consistency and coverage, are displayed in Table 5.20. Two models are shown for each outcome. In the first set of models (i.e. models 1, 3 and 5), the outcome score has been constructed in such a way as to represent a negative effect of social assistance participation. In the second set of models, the fuzzy set scores are used in their negated form, i.e. solutions relate to the lack of a negative effect.

Table 5.20 Results of Fuzzy Set Analysis

Model/dependent variable	Treatment of Logical remainders	Point of consistency break-off	Solution	Consistency	Coverage
Likelihood of positive earnings-M1	Set to 0	0.924	CENTRALIZATION*benefit*means-test*support	0.924	0.649
Likelihood of positive earnings-M2	Set to 0	0.925	benefit*MEANS-TEST*SUPPORT +CENTRALIZATION*BENEFIT * SUPPORT	0.761	0.701
Likelihood of positive labour income-M3	Set to 0	1.000	CENTRALIZATION*MEANS-TEST *SUPPORT+ CENTRALIZATION* benefit*means-test* support	1.000	0.548
Likelihood of positive labour income-M4	Set to 0	0.621	centralization*benefit*MEANS-TEST	0.542	0.703
Disposable income-M5	Set to 0	0.947	CENTRALIZATION*BENEFIT*SUPPORT+ CENTRALIZATION * benefit*means-test* support	0.965	0.615
Disposable income-M6	Set to 0	0.858	centralization*benefit*MEANS-TEST* SUPPORT	0.858	0.521

Note1: majuscule letters indicate belonging to the set as it is, while minuscule letters denote belonging to the set negated;
Note2: * indicates logical and; + indicates logical or;
Source: own calculations based on Table 5.19 scores;

A few caveats are in order before interpreting the results. First, the number of cases to be analyzed is very small. Consequently, solutions or parts of them are often based on a single case. Second, although every attempt has been made to derive fuzzy scores in a transparent and relatively straightforward manner, measurement/ calibration errors are possible. In combination with the small number of cases, measurement/calibration errors are likely to weigh heavily on any results. Third, fuzzy set scores for the three outcomes have been derived based on a single set of coefficients. However, it should be borne in mind that, although regression results are generally consistent across specifications, some variation does exist and it may potentially affect findings.

The first two models pertain to the likelihood of having positive earnings. Unsurprisingly, patterns of association are far from being clear-cut. A negative effect of social assistance programs is associated with centralization, low benefits, lax means-testing, and lack of support services. Lack of a negative effect on the other hand, is more likely to be found in a country with a decentralized, low benefit, strong means-test system or in one with a centralized, high benefit program with strong support services. Thus, low benefits and centralization may be found in conjunction with both harmful program effects and with lack of them. The availability of support services is more clearly associated with lack of negative effects. A similar picture emerges in the case of means-testing.

Two points should be noted. First, there is no indication of more generous benefits being detrimental for recipients' future chances of employment. On the contrary, it is low rather than generous benefits that seem to be associated with poorer program results. Second, decentralized, low benefit, low support programs are also the ones that are least able to reach the poor and most likely to 'leak' benefits to the non-poor (See chapter 4). As such, their association with lack of a negative program effect is more likely attributable to their irrelevance, rather than to any beneficial program design.

In the case of the likelihood of positive labour income, there is much less cross-national variation to be analyzed. Regardless of the specific features of the social assistance scheme they participate in, recipients are generally less likely to have labour income in the following year compared to non-recipients. In fact, all combinations of program characteristics showed the presence of the outcome with a very high consistency. To generate results, a consistency threshold of 1 was applied. Conversely, a low consistency threshold had to be used when minimizing the solution for the negated outcome (i.e. lack of a negative effect). Overall findings mimic those derived from the analysis of earnings. Once more, generous benefits do not appear to be associated with harmful program effects, albeit low benefits do appear in the solution of model 4. Centralization appears more consistently linked with negative outcomes. However, the

most important conclusion to emerge from the analysis of labour income regression coefficients is that all social assistance schemes, regardless of their features appear to depress the likelihood of having positive labour income in the future.

Lastly, the final set of models (5 and 6) refers to equivalised disposable income. Lower disposable incomes for social assistance clients may be observed in both high and low benefit programs. Likewise, negative outcomes appear both in countries where support services are underdeveloped and in countries where these services are well established. Lack of negative program outcomes is linked to decentralized, low benefit, strict means-test programs. However, these programs are also the ones least likely to effectively target social assistance disbursements. It is possible that, in this case, lack of negative effects is not due to program effectiveness but rather to program irrelevance. Centralized systems appear to be linked more consistently with poorer recipient outcomes.

5.12 SUMMARY AND PRELIMINARY CONCLUSIONS

Partly due to their relative novelty, social assistance programs in Central and Eastern Europe have been, so far, understudied. Standard economic welfare theory predicts that availability of a guaranteed income floor will have deleterious effects in terms of both the labour supply and the earnings of welfare recipients. However, empirical proof for the previous claim has been derived almost entirely from the American experiment with AFDC and TANF. Little is known about how social assistance operates in the European context in general, and the Central and East European one in particular. The dearth of evidence aside, a few studies in economics have taken a closer look at the provision of income support, unemployment benefits and labour market outcomes especially during the 1990-s (Boeri and Sziraczki 1993; Fretwell and Jackman 1994; Boeri and Edwards 1998; Ham, Svejnar et al. 1998; Rutkowski 1998). Albeit informative, these studies stop well short of actually empirically testing for program impact. Instead, program effects are inferred from marginal tax rates and standard welfare economics theory.

The examination of income and prior benefit receipt in eight CEE countries both supports and contradicts the predictions derived from the standard labour supply model. Overall, findings are far from being conclusive. In a number of countries, participants in social assistance schemes tend to have, other characteristics controlled for, lower odds of having positive earnings and/or positive labour income. More consistent negative effects are registered in the case of conditional earnings/ labour income amounts. Similarly, lower disposable incomes for social assistance recipients are registered in some countries. However, results are sensitive to the estimation sample, as well as household characteristics. Moreover, there is little indication that more generous social assistance benefits negatively impact on future recipients' outcomes. On the contrary, more generous social assistance benefits appear to counteract negative effects

of program participation in some countries. Finally, very little evidence was found to support the assertion that social assistance programs act as gateways for other social protection benefits.

In principle, cross-national variation in effect sizes presents the opportunity to examine program outcomes in conjunction with program design. However, a modelling of country level variance through fuzzy set analysis failed to yield clear-cut results. The availability of support services tends to be associated with diminished negative impact, a finding is consistent with previous work on this programmatic dimension (Hölsch and Kraus 2004; Lein and Schexnayder 2007). Contrary to welfare and labour supply theory but confirming findings in sections VI, VII and X, more generous benefits did not appear to be linked with detrimental program outcomes. Additionally, the association of lack of negative effects and stingy, decentralized, strict means-tested benefits appears to be attributable to program irrelevance rather than program effectiveness.

At this point, several caveats must be mentioned. First, the QCA analysis suffers from a severe limited diversity problem. On the one hand, this makes the obtained results more tenuous. On the other hand, the small number of countries prevented the incorporation of other indicators of the national economic, social and programmatic[159] environment so as not to compound the problem. This has the potential to bias the results. Second, the relatively small number of countries means that some configurations are only based on one case making measurement error and poor fuzzy score translation serious threats. Third, fuzzy set methods are relatively young in social science. As such, there are fewer agreed upon conventions on how to carry out the analysis and interpret the results. Finally, in light of the above, the results presented in this paper are not meant to support causality but rather to probe into existing associations and patterns and to hint at hypotheses for additional testing. Adding more European countries, as well as careful reviewing of program characteristics, together with incorporating national economic and policy aspects into the analysis should further enhance our understanding of how means-tested minimum schemes operate and to what effects.

[159] For example, this analysis has not included variation in active labor market policies;

6 EFFECTS OF SOCIAL ASSISTANCE PARTICIPATION ON PATTERNS OF ASSET ACCUMMULATION AMONG LOW-INCOME HOUSEHOLDS

Income, labour market position and status attainment have long formed the core of inequality and stratification research. Likewise, redistributive policies have sought to equalize first and foremost income resources. Despite its potential for securing consumption and living standards, relatively little attention has been paid to wealth and asset accumulation (Keister 2000; Keister and Moller 2000; Spilerman 2000; Shapiro 2001; Kurz and Blossfeld 2004). Not only had asset accumulation not figured prominently in scholarly research, social policies traditionally associated with the welfare state have paid little attention to the distribution of assets and the lack of access to them among low-income households (Beverly and Sherraden 1999; Sherraden 2001)[160].

Wealth distribution is heavily skewed not only in developing but also in developed countries. Given its allocation, large sections of the population possess either no or only a (fairly) small amount of wealth. As such, for a long time, assets as a resource were considered rather irrelevant for the well-being of the majority[161] (Keister and Moller 2000). Yet, assets and wealth may play a substantial role in shaping life chances and opportunities. As a result, policies that have an impact on the accumulation of assets among different groups, and thus influence stratification merit further investigation.

Traditionally, redistributive policies have focused on increasing or guaranteeing income (and indirectly, consumption) levels. Support for low-income households is usually structured in the form of cash transfers/ in-kind provision to boost consumption or in-kind provision of services in order to secure integration into the labour market. Policy proposals to foster asset accumulation (as an alternative to income based policies) among the poor have been put forward only recently and only on a limited basis (Beverly and Sherraden 1999; Carney and Gale 2001; Denton 2001; Sherraden 2001; Duflo, Gale et al. 2006). Yet, income support for the neediest is not neutral towards asset ownership. Far from promoting wealth accumulation, it might actually encourage dissaving, either through the transfers it provides or, more importantly, through an asset-test based eligibility. By supplying cash when other income is too low, the program

[160] However, a great deal of policies have fostered asset accumulation among the middle income classes, usually through tax incentives, but such fiscal welfare, in comparison with traditional spending measures has remained much more invisible.

[161] For a description of trends and levels of wealth inequality in the United States, see Keister, L. A. and S. Moller (2000). "Wealth Inequality in the United States." Annual Review of Sociology **26**: 63-81, Carney, S. and W. G. Gale (2001). Asset Accumulation Among Low-Income Households. Assets for the Poor: The Benefits of Spreading Asset Ownership. T. M. Shapiro and E. N. Wolff. New York, Russell Sage Foundation**:** 165-205, Wolff, E. N., A. Zacharias, et al. (2005). "Household wealth, public consumption and economic well-being in the United States." Cambridge Journal of Economics **29**(6): 1073-1090.; wealth inequality is, as a rule, much more severe than income inequality.

effectively sets an income floor that may discourage saving for self-insurance purposes[162]. By making entitlement dependent on wealth possession, further disincentives to accumulate may be built in the program.

This chapter sets out to investigate the role of minimum income schemes in the patterns of asset accumulation among the poor in eight Central and West European countries. The chapter is organized as follows. The following section discusses the role of assets in boosting life chances and opportunities, and thereby in shaping inequality and poverty. The third part outlines some of the specificities of Central Europe regarding savings and wealth accrual. The fourth part reviews the existing evidence, as well as its theoretical underpinnings concerning asset stocks and accumulation processes among low-income families. The fifth part examines potential links between the design of minimum income schemes and asset ownership patterns among recipients. The sixth part discusses data, research design as well as detailing hypotheses related to the income floor guarantee provided by minimum income programs, as well as asset tests contained by those programs and four asset variables present in the database. The seventh part presents the preliminary results for the income floor effect, followed by a discussion of asset test in section eight. Finally, the ninth section concludes

6.1 WHY ARE ASSETS IMPORTANT?

Albeit ignored, especially in social policy research[163], assets undoubtedly constitute an important part of economic, social and political resources. First of all, assets can be pictured as the present value of a capitalised income flow. Put differently, assets can be sold to generate an income stream. As such, wealth can be used to smoothen consumption[164] during periods of negative income shocks (Shapiro and Wolff 2001; Ziliak 2003; Wolff, Zacharias et al. 2005; Carter and Barrett 2006; Hurst and Ziliak 2006; Morillas 2007). Possessing wealth can also reduce the need for savings in order to insure against adverse risks, thereby freeing up more income to increase consumption levels (Spilerman 2000).

However, wealth cannot be reduced to an income stream. Its benefits encompass several advantages that are not available through income alone (Keister and Moller 2000; Edin 2001; Shapiro 2001; Stern 2001; Morillas 2007). First, wealth usually can be invested to generate more wealth, usually by making use of the capital markets. In addition, it can be used as collateral in order to secure access to credit needed to invest.

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[162] The mechanism through which the presence income floor depresses precautionary saving is further explained in section V.

[163] The American public benefits literature constitutes somewhat of an exception, although, studies looking into the impact of public programs on asset accumulation are far fewer than for example the ones investigating labour supply and earnings.

[164] For a discussion of the potential interdependencies between homeownership rates and national social insurance policies see Conley, D. and B. Gifford (2006). "Home Ownership, Social Insurance, and the Welfare State." Sociological Forum **21**(1): 55-82.

Second, productive assets are directly used in income/wealth generating activities, such as self-employment. Even less liquid assets such as housing can contribute positively to the development of entrepreneurial activities (especially among those in the lower part of the income distribution), by providing a base around which to organize a business.

Third, it offers its owner status, prestige and easier access to power. Campbell and Henretta envisage a status model in which status attainment is underlined by several status claims, all related directly or indirectly to consumption levels (Campbell and Henretta 1980). Since wealth represents a guarantee of the consumption level in the long-run, they conclude that asset accumulation constitutes another basis for claiming status, separate from income.

Fourth, wealth can enhance household stability and improve future orientation and planning, and promote risk-taking[165]. A review of the recently introduced Individual Development Accounts (IDA-s) shows that accumulated assets can offer a sense of security and can lessen the perceived economic strain among low-income families, even after income is controlled for (Shobe and Boyd 2005). Likewise, homeowners may be less likely to experience overwhelming emotional stress during times of economic hardship (Grinstein-Weiss, Williams Shanks et al. 2010).

Fifth, some forms of wealth can be enjoyed/used without consuming them (such as a house that is simultaneously being used for living and kept as an asset the value of which appreciated over time), are not exposed to labour market risks and often benefit from a more favourable tax regime compared to earnings.

Last but not least, wealth can be equated to improved opportunities. Wealth can be used to acquire other forms of desirable capital, such as human or social, thereby further boosting life chances. Morillas (2007) finds that wealth differentials are positively correlated to the inequality in the earnings potential, even when education is controlled for. Parental wealth has also been found to impact on the children's educational outcomes (Haurin, Parcel et al. 2000; Conley 2001; Boyle 2002; Huang, Guo et al. 2010). Huang, Guo et. al (2010) find that assets play a more important role than income in overcoming short-term borrowing constraints to finance an offspring's college education. Furthermore, their results suggest a long-term effect of wealth on the likelihood of entering college that parallels that of income. Especially early-childhood wealth is closely linked to higher academic ability[166], as well as family expectations regarding educational attainment. In a similar vein, Conley's results (2001) suggest that wealth has an analytically distinct effect from income on both years of education, and on the transition to post-secondary education.

[165] Since wealth can be seen as a form of insurance against unsuccessful investment or entrepreneurial activities, it theoretically promotes higher risk activities, since higher risk is usually associated with higher return.

[166] The authors hypothesize that assets constitute a resource that can be invested in child development (creating a better home environment, attending a better school, financing extra-curricular activities etc.) Huang, J., B. Guo, et al. (2010). "Parental income, assets, borrowing constraints and children's post-secondary education." Children and Youth Services Review **32**(4): 585-594.

Homeownership has been linked with significantly improved quality of the home environment, both from a cognitive and an emotional perspective, and with raised achievement both in reading and mathematics (Haurin, Parcel et al. 2000). Additionally, children of home owners have been found to display fewer behavioural problems (Haurin, Parcel et al. 2000; Boyle 2002), to be more often engaged in extracurricular activities and to spend less time in front of the TV or playing video games (Grinstein-Weiss, Williams Shanks et al. 2010) compared to children of renters.

Thus, wealth brings about a series of advantages that cannot be subsumed to a labour market position, however exhaustively described. Ownership matters greatly for one's economic and social welfare and economic security, independently of the current flow of income. In fact, the desirable properties of wealth as a measure of well-being and resources have prompted suggestions to use it as an *alternative* to income. Income-based measures of well-being have strongly been criticised as arbitrary and not grounded in behavioural/ empirical facts (Birdsall and Londoño 1997; Keister 2000; Carter and Barrett 2006). Indeed, income is a flow measure and, as a result, is subjected to transitional and random fluctuations. Permanent or life-time income is virtually impossible to observe and thorny to estimate. In contrast, wealth represents a stock measure and accordingly captures the history of resource accumulation and previous income flows for a given individual or household. Given it is more stable over time, wealth could replace income as the basis for poverty measurements , as well as serve as a means to distinguishing transient from permanent or chronic poverty forms (Carter and Barrett 2006)[167].

6.2 SAVING AND ASSET ACCUMULATION IN CENTRAL AND EASTERN EUROPE

Little work has been carried out to assess the size and distribution of assets in Central and Eastern Europe. Notwithstanding this dearth if data, a few facts are relatively uncontroversial, although sometimes they have been deduced on theoretical grounds rather than documented empirically.

First, national accounts data in the 1980's and 1990's indicates that former socialist countries experienced comparatively very high gross domestic saving rates (around 30% of GDP) during the 1980's, followed by a steep decline during the 1990s when the saving rates hovered around 10%. Many researchers have attributed part of this collapse to the elimination of involuntary or "forced" savings prevalent during the socialist era (Denizer and Wolf 1998; Denizer and Wolf 2000; Schrooten and Stephan 2001; Vadas 2009). Since consumers in a command economy are faced with pervasive shortages in a context of fixed prices, disequilibrium exists between demand and supply. Thus, consumers are not able to satisfy their entire demand at the official price and are left with a monetary overhang. If this excess money

[167] The method proposed by the authors assumes that the function converting underlying assets into income streams is known.

cannot find an outlet on the black market, it is transformed into "forced" or involuntary saving (Denizer and Wolf 2000). Price liberalization, one of the first macroeconomic measures taken during transition, would have eliminated the savings surplus by inflating prices to the point where demand and supply are in equilibrium. However, the existence of "forced" saving could not always be documented empirically[168]. For example, an analysis based on data generated by the World Bank's "Savings across the World" project, while confirming the presence of involuntary saving in the three Baltic States, Poland, Bulgaria and Romania, could not find any evidence of this phenomenon in Hungary or in the Czech and the Slovak Republics (Denizer and Wolf 2000). It is important to remember though that the decline figures relate to aggregate and not to private or to household savings.

Second, although not directly addressing the issue of household savings and assets, studies of privatization policies in Central and Eastern Europe have assumed that the level of private wealth and accumulation during early transition was very low (Bolton, Roland et al. 1992; Walder 2003). The rationale underlying this assumption is based on the official socialist proscription of (excessive) private wealth and the relatively equalitarian distribution of income. However, private ownership has never completely disappeared in any country of the communist bloc. State seizures of property have focused mostly on business and land (i.e. production means), and have been less concerned with residential property (Hanley and Treiman 2004). Moreover, residential property continued to be bought and sold privately. Land has constituted another important form of private wealth, especially for rural residents. In Poland, collectivization has never really taken off so a large share of available agricultural land has remained in private hands. Even in countries where collectivization has been carried out successfully, households were allowed to keep small plots of land for private use (Szelenyi 1988). Private property accumulation has been further advanced by economic liberalization. In Hungary, reforms carried out in the 1970's have further extended the limits of allowable private land, and instituted contracts between private individuals and the state for lease and purchase purposes (Szelenyi 1988). Thus, especially in more liberalized communist regimes, households were likely to privately possess their homes, to accumulate some consumer durables, or even to have a business in the secondary economy. Accumulated private property could be passed on to the next generation. In fact, inheritance laws, particularly after the Stalinist period, resembled to a large extent Romanic law[169].

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[168] The existence of "forced" savings during socialism is usually demonstrated by comparing the observed savings rate with the presumed rate under market economy conditions; the latter is computed by assuming that determinants of saving are the same in market and command economies at a certain level of development, determining savings elasticities based on a sample of market economies and substituting the socialist countries' corresponding values of the savings' determinants ; see Denizer, C. and H. C. Wolf (2000). "The Saving Collapse During the Transition." The World Bank Economic Review **14**(3).

[169] Albeit Marxism proclaimed the abolishment of the inheritance of private property, the institution of inheritance has been firmly maintained both in the Soviet Union and in its satellites; with the exception of agricultural land in joint ownership, there were little restrictions on inheritance; furthermore, initially stricter dispositions have been gradually relaxed. For a description of Soviet and CEE inheritance law see Gsovski, V. (1947). "Soviet Law of Inheritance: I." Michigan Law Review **45**(3): 291-320, Brown, L. N. (1963). "Inheritance and the Communist Legal

In addition to private property carried over directly from the socialist period, two other processes have additionally contributed to the formation of private assets stocks. On the one hand, restitution laws passed in the aftermath of the regime collapse have reconstituted partially or totally pre-communist property rights[170](Hanley and Treiman 2004). On the other hand, some state property has been acquired, more or less onerously, by managers and insiders of state enterprises taking advantage of the de facto decentralization of economic decision-making in the early 1990s (Bolton, Roland et al. 1992; Hanley 1999). Yet, the absence of micro-data on household savings and possessions during the period makes it hard to gain a clear picture about patterns of asset accumulation and distribution in the years after the regime change.

Despite the data limitations, a few studies have looked into the determinants of private and household saving during transition (Denizer and Wolf 1998; Denizer, Holger et al. 2000; Denizer and Wolf 2000; Schrooten and Stephan 2001)[171]. Findings indicate that a higher saving rate is associated with having a higher relative income, being middle-aged and facing more uncertainty about the future (proxied by the level of liberalization[172]). The labour market position (sector of employment and type of employment) is found to have no impact on the propensity to save. One exception is unemployment significantly reducing the savings rate (Denizer and Wolf 1998). Lack of consumer durables is also positively correlated with increased saving rates, most probably a consequence of constrained consumer credit during the 1990's. No clear patterns emerged regarding the impact of either inflation or economic growth on the savings rate. While informative, these studies are far from providing a clear picture of Central and East European specificities in the area of savings and assets. Moreover, confusing patterns might have emerged due to the widespread use of proxies in the absence if adequate data. For example, economic growth has been found to have both a positive and a negative effect on the saving rate. In the first case, it has been interpreted as a proxy for income (Schrooten and Stephan 2001), whereas in the second it has been seen as a sign of consumption smoothening in the face of a J growth curve (Denizer and Wolf 2000). The quality of data represents a serious issue even when access to household level data is available. Because savings are generated residually based

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Order." Soviet Studies **14**(3): 295-313, Tay, E.-S. A. (1968). "The Law of Inheritance in the New Russion Civil Code of 1964." The International and Comparative Law Quarterly **17**(2): 472-500, Foster-Simons, F. (1985). "The Development of Inheritance Law in the Soviet Union and the People's Republic of China." The American Journal of Comparative Law **33**(1): 33-62, Malik, S. (1986). "Inheritance Law in the Soviet Union and the People's Republic of China: An Unfriendly Comment." The American Journal of Comparative Law **34**(1): 137-144. However, there were limits on what could be held privately, as well as on the uses of private property (for example, the ban on profit seeking); it is not clear though to what extent these restrictions were actually enforced.

[170] Especially land and real estate property has been restituted to previous owners or their heirs; to a lesser extent, business property owners have also been compensated for their loss.

[171] Only Denizer, C. and H. C. Wolf (1998). "Household Savings in Transition Economies." NBER Working Papers Series **6457**, Denizer, C., W. C. Holger, et al. (2000). Household Savings in Transition Economies. Policy Research Working Paper No 2299. Washington D.C., World Bank. use micro-data in their study.

[172] A higher liberalization index is used to stand for more certainty about the future institutional outlook; its negative impact on the saving rate is interpreted as more certainty about the future driving down the need for precautionary saving.

on income and expenditure, both of which are known to suffer from underreporting[173], their level is probably underestimated.

Macroeconomic policies, as well as structural reforms have had an impact on wealth levels and distribution in Central East European countries during the first transition years. While no comprehensive study on the topic is known to the author, at least two facts are worth noting. First, the value of whatever savings households might have accumulated in liquid form (voluntarily or involuntarily) has been seriously reduced by bouts of inflation and, in some cases, hyperinflation during the first years after price liberalization. Inflation had a levelling effect by triggering greater losses for those with higher savings. Second, a rapid privatization of the publicly rented housing stock resulted in large home ownership rates across the region (Buckleyand and Tsenkova 2001; Pichler-Milanovich 2001). While each country adopted its own version of a privatization strategy, the housing stock has usually been sold at price levels well below market value, and often disregarding desirability features such as location (Pichler-Milanovich 2001). While the (very) low asking prices might have enabled some low-income households to become home-owners, they also reinforced existing inequalities in access to housing since tenants in more desirable housing units were comparatively advantaged. The low selling price of the publicly rented housing stock, together with the elimination of direct producer subsidies, is thought to have depressed supply and, as a result, increased housing prices, making home ownership much less likely for younger generations (Buckleyand and Tsenkova 2001; Pichler-Milanovich 2001). Some governments (such as the Hungarian one in 2001) have subsequently introduced indirect housing subsidies (directed at the consumer rather than at the producer), in an attempt to solve the housing issues. However, the subsidies seem to have further increased prices rather than eased demand (Vadas 2009).

6.3 ASSET ACCUMULATION PROCESSES AMONG LOW INCOME HOUSEHOLDS

Although wealth and income are often found to be only weakly correlated (Keister 2000), those who posses few income resources are usually found to also lack wealth and assets. To some extent, this finding is not wholly surprising. By definition, the poor possess too little liquidities to ensure an adequate consumption level. As such, they are presumed to have virtually no leeway left to build up savings or to invest in asset accumulation (Keister and Moller 2000; Carney and Gale 2001; Sherraden 2001). Furthermore, low income families often have more irregular work histories, with more frequent unemployment spells, and less access to secure and stable jobs in the primary labour market. Both unemployment (Gruber 2001) and temporary employment (McGrath and Keister 2008) have been found to reduce asset levels, independently from income, education or occupation. However, the low income levels in themselves are not

[173] See for example Denizer, C., W. C. Holger, et al. (2000). Household Savings in Transition Economies. Policy Research Working Paper No 2299. Washington D.C., World Bank..

enough to account for the observed levels of asset ownerships, at least in developed countries such as the United States. In particular, the standard economic model used to explain saving patterns, i.e. the life-cycle accumulation model[174], is reasonably accurate in accounting for observed wealth accumulation among middle and higher income households but seriously over-predicts asset-to-income ratios among low income families (Hubbard, Skinner et al. 1995; Browning and Lusardi 1996; Ziliak 2003; Fernández-Villaverde and Krueger 2004).

As a result, other reasons have been put forward to explain why the income poor might end up with little or no wealth (Beverly and Sherraden 1999; Carney and Gale 2001; Sherraden 2001). If income poverty is related to some unobserved psychological or behavioural characteristics (such as lack of motivation, lack of discipline and willpower, a preference for leisure and present rather than future utility etc), these features, in turn, might be responsible for wealth poverty as well. A shortage of both income and assets would in this case be a result of "deficient" choices stemming either from personal preferences or from socially shaped "deviant" behaviour. In fact, behavioural models of wealth accumulation (Browning and Lusardi 1996; Beverly, McBride et al. 2003) maintain that saving in itself requires active psychological or behavioural strategies to contain spending and to save. If such is the case, unobserved psychological traits that hamper "mental tricks" needed to restrain consumption (such as very high time discount rates), as well as lack of access to instruments facilitating savings (such as for example, transforming liquid wealth in less liquid forms like stocks or bonds) have the effect of lowering wealth accumulation relative to a given income level. Thus, the observed gap in wealth-to-income ratios between high and low income households could be accounted for if low income is correlated with an inability to implement psychological and/or behavioural saving strategies.

Finally, an often overlooked factor that can alter both the distribution of income and assets, as well as asset portfolios consists of existing economic and social institutions. These can facilitate, or on the contrary impede asset accumulation among the various income groups. Traditionally, policies supporting asset accumulation have relied on the tax system. The favourable tax treatment of mortgages has long been a well established means through which the state can encourage home ownership among the middle classes (Kurz and Blossfeld 2004; Shobe and Boyd 2005; Conley and Gifford 2006). In general, favourable tax treatment of capital gains and asset holdings has the potential to encourage asset building among the middle and upper income strata. Conversely, low and lower middle income households have usually not been able take full advantage of these tax incentives since their income was seldom high enough.

Other institutional barriers have hampered asset accumulation among the poor. Among them, lack of access to affordable credit has probably received the most attention, most often in connection to access to homeownership (Stern 2001; Karger 2004). Middle-income families have

[174] For a comprehensive review of the various theoretical models used to explain patterns of saving, see Browning, M. and A. Lusardi (1996). "Household Saving: Micro Theories and Micro Facts." Journal of Economic Literature **34**(4): 1797-1855.

traditionally resorted to credit in order to purchase a home. Since homeownership is the single most important item in an average family's asset portfolio, and since buying a home has been a relatively safe and high-return investment, lack of access to affordable mortgage markets can be expected to directly limit wealth among poorer households. Moreover, a lack of access to credit may impede wealth build-up in more indirect but nonetheless important ways. Both entrepreneurial activities and human capital investment are credited with potentially very high rates of return, in terms of future income and ultimately asset accumulation (Sykes 2005). Credit is an important financing strategy both for launching one's own business and for investing in education. Finally, even short-term consumption credit may directly impact on asset accrual. Ethnographic studies (Karger 2004) have documented that, in the absence of a link to mainstream financial institutions, many poor families resort to fringe establishments such as pawnshops, rent-to-own stores, check cashers etc. that charge loan sharking fees and repossess collaterals, depleting the assets of the poor in the process.

Low-income groups have traditionally been targeted for state support not through the tax system[175], but through direct provision of cash and services. More generally, the provision of cash transfers and of basic services forms the core of classic welfare state, whose effects on assets are much less known[176]. The next section is dedicated to reviewing the asset implications of one type of policy that is especially salient for the poor, means-tested social assistance.

6.4 MEANS-TESTED PROGRAMS AND ASSET ACCUMULATION

Welfare state variation among industrialized countries, both in quantitative and qualitative terms, is a well established fact (Esping-Andersen 1990). Although much less rich than their neighbours, Central and East European countries have established social insurance and assistance programs that largely resemble those established in the West (Collier, Roggeman et al. 1999; Barr 2002; Inglot 2008). Social assistance programs are no exception[177]. Albeit differing in a number of important respects, the policy designs of this type of program share several important characteristics. Firstly, although support for the poor has been made available under various forms, ranging from cash transfers, to subsidized housing, to in-kind provision of goods and especially services, the onus is generally put on two dimensions, i.e. enhancing consumption and the future labour market position. Nowhere does asset accumulation figure as an explicit policy goal. Secondly, programs are, at core, designed as a minimum income scheme, meaning that both eligibility and the amount of the disbursed benefit are tied to an income

[175] An important exception to this general pattern is the Earned Negative Income Tax in the US; another institutional barrier to asset accumulation among low-income households has been pinpointed in the lack of access to affordable credit.

[176] An exception is the relatively well-developed economic literature on the impact of public pension benefits on savings.

[177] By social assistance, I mean means-tested cash transfers and associated benefits that are made available based on need.

threshold. More specifically, the benefit tops up the current income of a recipient up to a certain threshold. As such, this type of program effectively establishes a consumption floor, thereby possibly reducing incentives for precautionary saving, especially for families with lifetime incomes close to the established floor. Thirdly, with few exceptions, means-tested programs take into account a claimant's assets when establishing eligibility. Asset-test can be justified on at least two accounts. On the one hand, as income is a flow measure, it is often very difficult to measure it precisely, especially when income sources are erratic as it is often the case with the poor. An asset-test can be presumably used to correct for any underestimation of the available income sources. On the other hand, since assets are a resource in themselves and as a rule, can be converted into an income stream, those possessing them cannot be considered "truly" in need.

These three features common to social assistance programs throughout Europe, albeit not necessarily intended to impact on ownership patterns, have the potential to depress asset accumulation among the low income population in general, and their clients in particular. By providing an income guarantee, the existence of a means-tested safety net can lower the motivation to save in order to insure against future risks (the income effect). Since the level of the benefit is set usually very low, most often below relative poverty lines, the strongest disincentives are experienced by those with low and very low incomes. In this case, the saving disincentive arises from the existence of the transfer itself. Moreover, a more generous income support would, in this view, worsen the saving disincentives.

A very low benefit can discourage asset accumulation in other ways. Often, the build-up of assets, especially that of home ownership, life insurance and pension plans, requires a long-term and steady ability to pay in (premiums, contributions, mortgage rates etc.), before any profit can be reaped. Yet, low income households are much more likely to experience variability in their income flows. A very low income guarantee would not allow the continuation of such payment while in receipt of the benefit and thus could, a priori, discourage any attempts to save through long-term (higher return) instruments (security effect). Note that according to this line of reasoning, the problem is not the existence of the benefit itself, but its level. Contrarily to the income effect, a higher income floor guarantee would be expected effectively enhance asset accumulation.

The effects described above are indirect, but means-tested programs for the poor can have a direct negative impact on asset accumulation among low-income households through their asset-test. Because entitlement is partly based on lack of access to wealth, the programs give rise to two adverse[178] effects. On the one hand, households that lack income could be forced to

[178] Note that the first effect is actually an intended one if the purpose is to force households to use up all their resources before public support kicks in and to thus conserve public resources. However, in light of the importance of assets for economic security, as well as their non-linear accumulation, drawing down on assets is potentially harmful for the household's long-term economic perspectives.

spend down their assets in order to become eligible for the benefit[179]. This outcome would artificially lower assets among clients of the program. On the other hand, low-income households, knowing that their eligibility for the income safety net is conditional on not possessing any wealth, could be induced to forgo any asset accumulation so as to maintain entitlement in the case of adverse income shocks. Similarly to the income and security effects, this result would affect the entire low-income population, independently of whether it received any means-tested benefits or not.

To sum up, receipt or mere awareness of means-tested income support is possibly harmful for the prospects of asset ownership among the low-income strata. Not only is this effect undesirable, but it renders assistance to the needy self-defeating. As discussed in the first section, assets constitute an invaluable resource. Making them inaccessible to the poor seriously undermines their abilities to become self-sufficient and could increase dependence on benefit receipt. Studies in the field of development economics have found that the poor can weather successfully adverse shocks to their material situation if their (productive) assets have not dropped below a critical threshold (Barrett and Carter 2005; Barrett and Swallow 2006; Carter and Barrett 2006). In contrast, severe asset losses have been found to usually result in chronic poverty lock-ins.

Notwithstanding a few very brief theoretical discussions (Beverly and Sherraden 1999; Sherraden 2001), empirical explorations of the negative effects of social assistance programs on asset ownership among the poor have remained scarce. In addition, they are, by and large, confined to the American public assistance system, where quantitative evaluation of public policies is a well-entrenched tradition and where programs specifically targeting the poor have received more scholarly attention.

An early influential study (Hubbard, Skinner et al. 1995) attempted to reconcile the standard life-cycle accumulation model with the observed low wealth to income ratio among households with low lifetime earnings (proxied by education), by incorporating the impact of means-tested transfers on inter-temporal utility maximization. Two types of effects have been integrated in the model. First, since means-tested benefits provide a consumption floor in the case of negative income shocks, they reduce the need for precautionary saving. Second, since eligibility is asset-based, these programs usually entail an implicit 100% tax on wealth above certain thresholds. Both mechanisms should depress asset accrual among households that are current or potential clients of the programs. Using simulations of their proposed extended model, the authors have been able to reproduce the observed differences in the wealth to income ratios of high and low permanent income households. As a result, they conclude that public policies in the form of means-tested public assistance can account for the puzzle of very low wealth levels among lower-income households.

[179] Spending down assets may be particularly problematic in the case of the elderly who would like to bequest something to their heirs. Possessing assets may not only disqualify them from public aid but may hurt their children/ grandchildren if asset tests are used in conjunction with an extended family assessment unit.

Albeit providing interesting insights, the study does not amount to a formal empirical test of either benefit levels or asset limits on wealth accrual among the economically vulnerable families. However, several changes in the eligibility rules governing the American public assistance system have allowed some authors to directly test for the presence of dissaving incentives in the design of means-tested benefits. Taking advantage of the changes introduced in AFDC in 1981 through the Omnibus Budget Reconciliation Act (OBRA)[180], Powers (1998) estimated a relatively large negative effect of asset tests. More specifically, her results indicate that a one dollar increase in the exempted assets limit induced a 25 cents increase in savings among poor female headed households with children.

Nevertheless, this finding remains controversial. More recent research centring on the transformation of asset eligibility rules brought about by the Personal Responsibility and Work Opportunity Act (PRWORA) in 1995[181] has failed to find conclusive evidence of a significant negative impact of asset tests on wealth accumulation among low income households eligible for public assistance. For example, Hurst and Ziliak (2006) find that both the target group (potentially eligible households) and the comparison group (low-income households without children) failed to increase their wealth stock in response to more generous asset limits. In addition, states implementing more generous asset limits did not experience greater wealth accrual among the target group compared to states making smaller adjustments. The authors conclude that asset limits present in means-tested public assistance programs are likely not binding[182], and therefore of no consequence for wealth accrual among low-income households (vehicle ownership is an exception). Instead, means-tested transfers may reduce wealth levels among economically vulnerable households by providing a consumption floor and thus, reducing the need for precautionary saving. In another study, Ziliak (2003) uses a correlated random-effects generalized method of moments estimator to search for evidence of precautionary saving among the poor, the near-poor and the rich[183]. He finds that the poor show lower (especially financial) wealth to income ratios (compared to the near-poor and the rich) in states with higher AFDC/Food Stamps transfers. Apparently, the presence of a consumption floor depressed accumulation among the poor but not among the near-poor or the rich. Furthermore, his results indicate that asset tested benefits reduce wealth-to income ratios among the poor to a greater extent than non asset tested transfers. He attributes 42% of the gap in liquid holdings to income ratios to the presence of asset tested transfer income.

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[180] Overall, the law reduced the limit of allowable assets for AFDC recipients, with the exception of the primary home which became exempted; since previously the various states has different limits, sharper decreases in more generous states could be compared to smaller decreases in states with more stringent rules before the Act.

[181] The federal law allowed the states to implement their own asset limits in the new Temporary Assistance to Needy Families (TANF) program; the majority of the states took advantage to raise the limits of allowable assets for program clients; however, some states implemented more generous allowances than others.

[182] Low income households save too little anyway for the asset test to be relevant.

[183] The sample is split based on an average of predicted probabilities to be on welfare across several years, Ziliak, J. P. (2003). "Income Transfers and Assets of the Poor." The Review of Economics and Statistics **85**(1): 63-76.

In a similar fashion, Nam (2008) analyzes the consequences of public assistance asset tests on financial savings. Using a somewhat larger target group (female headed households with children and less than 16 years of education), the author replicates previous findings of a statistically insignificant coefficient of the amount of asset limits on financial savings. However, replacing the amount of the asset limit with the length of time a relaxed asset limit has been in place does yield statistically significant results. More specifically, the longer a liberalized asset limit had been in effect, the greater the likelihood that the target group accumulated more financial assets relative to the comparison groups. Additionally, conditional on savings being larger than zero, both the value of the asset limit and the time length of implementation mattered in raising financial savings, suggesting that there may be a time lag before low-income families start saving in response the higher asset limits. A similar time effect has been found in relation to the probability of owning a bank account.

Consumer durables have been shown to constitute a very important component of the wealth portfolio of low-income households (Fernández-Villaverde and Krueger 2004; Sullivan 2006). Since they may also constitute important consumption goods, their potential interaction with asset tests present in social assistance programs is of particular interest. Sullivan (2006) exploits interstate variation in asset limits related to TANF eligibility, but focuses on vehicle ownership and vehicle equity[184]. His findings indicate that vehicle ownership increased more in his target group (single mothers without a high school diploma), both in absolute terms and relative to a comparison group, when the state they resided in had higher vehicle limits for TANF participation. Vehicle exemptions and higher vehicle limits tended to increase both the likelihood of possessing a vehicle and vehicle equity. However, general asset limits had no influence on vehicle ownership. Despite the fact that implicit tax rates were lower on vehicles than on financial wealth, no evidence of asset reallocation was found.

Another US public program targeted at the poor is Medicaid. Similar to AFDC/TANF, eligibility for Medicaid involves restrictions on asset ownership. One study (Gruber and Yelowitz 1999) looked at potential effects of Medicaid coverage on the total net worth of low-income families, exploiting a differential change in eligibility rules across states to identify program effects. Results indicated that each $1000 increase in "eligible Medicaid dollars"[185] reduced by 0.81percent the odds of having positive assets. Correspondingly, each $1000 increase in "eligible Medicaid dollars" depressed total net worth holdings by 2.51%, conditional on having positive assets. Nonetheless, the effects were relatively small in absolute terms, due to the very low levels of total net worth among the Medicaid eligible population.

Finally, several studies have investigated asset accumulation processes among the unemployed (Engen and Gruber 2001; Gruber 2001). Although unemployment insurance has

[184] Under TANF, most states implemented a more favourable treatment of vehicles than of financial assets when establishing eligibility.

[185] This is a measure computed by the authors to account for variation in eligibility depending on income, family size and composition and other household characteristics; see Gruber, J. and A. Yelowitz (1999). "Public Health Insurance and Private Savings." Journal of Political Economy **107**(6): 1249-1274.

different objectives and potentially addresses different needs than means-tested public assistance, the client populations of the two programs tend to share important similarities (such as lower education, lower life-time income and so on). Using state variation in unemployment insurance replacement rates as a proxy for future income uncertainty, Engen and Gruber (2001) test for the existence of precautionary saving. Their results indicate that higher replacement rates reduce wealth to income ratios, especially for younger workers. The magnitude of the effect they find is sizeable in percentage terms (2.8% drop in the financial wealth to income ratio for each 10% increase in the replacement rate), but small in absolute terms (around 241$ at the median). In this case, the presence of a consumption floor implicit in the unemployment insurance benefits depresses saving. Nevertheless, findings in a different study (Gruber 2001) suggest that the unemployment insurance may play a positive role in wealth accumulation. In particular, individuals benefiting from more liberal replacement rates tend to draw down their assets at a slower rate. In this case, the presence of a more generous consumption floor mitigates dissaving during unemployment spells.

If studies of the effect of public transfers on asset accumulation are few and far between in developed countries, even less attention has been paid to processes taking place in the developing world. A study of the Chilean pension reform (Cerda 2008) concludes that the previous PAYG social security system had a negative impact on wealth among low educated workers, but not on the other categories of workers. The size of the effect was considerable: each peso in current future benefits in the PAYG system reduced the predicted wealth among low income workers by approximately 0.1 pesos[186].

In the context of Central and Eastern Europe, several studies have addressed the issue of savings in connection with proposed reform of the pension systems[187] (Fultz and Ruck 2001; Hausner 2001). However, the primary interest of these studies has lied with approximating the extent of a rise in aggregate savings in the event of switching from a PAYG to a funded pension system. What is more, since implementation of pension reform has started only relatively recently[188], results are estimated based on theoretical models rather than observed empirically[189]. As such, they shed little light either on mechanisms of wealth accumulation or on the actual impact of public transfers on observed asset levels specific to Central Europe. What is more, virtually no wok has been carried out to examine the impact of an income floor guarantee and of

[186] However, it is not very clear why the author fails to find the same effect for the newer funded system; perhaps since the system had less time to establish itself, it is less trusted, and thus it depresses precautionary saving less.
[187] More exactly, the propositions of moving from a PAYG to a funded pension system, largely following the Chilean example; the World Bank has played an important part in promoting this transition with varying degrees of success.
[188] In some cases (for example Hungary), the transition has been temporarily "frozen" in the face of financial difficulties.
[189] A Hungarian study has carried out a similar exercise in connection to housing policies during the 2000's; Vadas, G. (2009). "The Housing Subsidy Scheme and Households' Wealth in Hungary: Urban Legends and Facts." International Journal of Housing Policy **9**(1): 1-24.

asset based eligibility in minimum income schemes on patterns of asset accumulation among low-income households either in Western or in Central Eastern Europe.

6.5 HYPOTHESES, DATA AND METHODS

6.5.1 HYPOTHESES

While the used dataset (the European Union-Survey of Income and Living Conditions) does not specifically collect detailed data on wealth levels (especially liquid forms of wealth), nonetheless, some information on some types of assets is available. More specifically, information exists on possession of consumer durables, accumulation of arrears, and capacity to face unexpected financial expenses. The last question is of special interest. In the absence of precise information on savings, it provides a first approximation of whether the household has some sort of short-term financial cushion[190]. Additionally, information exists on the income amounts that the household derives from its assets, i.e. income from interest, dividends, unincorporated business and income from rental of property. Asset generated income may be used as a proxy, albeit imperfect, of having positive net worth.

Thus, in the absence of any good measure of overall wealth, four separate asset related variables are used: consumer durables, arrears, asset generated income, and savings. It should be noted that despite being all related in some way to net worth, the four variables refer to types of assets that may be qualitatively different. As a result, they will be analysed separately.

All four asset proxies may be hypothesised to be affected by means-tested income support programs, yet the strength of the effects will probably differ. Consumer durables may represent an important form of asset accumulation for low-income households (Fernández-Villaverde and Krueger 2004; Sullivan 2006). As such, the presence of a state sanctioned income floor, by reducing the need for precautionary saving, depresses all asset holdings, including consumer durables. To the extent that program asset tests do count consumer durables as assets and deny eligibility to owners, they may further reduce the propensity to accumulate consumer durables. However, consumer durables are a special form of assets, in that they hold intrinsic consumption value. In effect, they are likely to be purchased primarily for their consumption value rather than as insurance for a rainy day[191]. Moreover, most social assistance programs will probably disregard basic household appliances when establishing eligibility (the possession of a car is probably the most notable exception). Both income floors and asset tests imply a negative

[190] Because of the way it is formulated (help from outside the household and medium and long-term loans are excluded), a positive response amounts to having some savings or being able to rely on short term (essentially credit card loans that must be paid off within a month). Thus, especially for low-income households which lack the extra income to cover an amount equal to the poverty threshold per household member from one month's income, a positive response is a good approximation of having some savings.

[191] Due to their rapid loss of value, consumer durables in effect make a poor saving device.

effect on consumer durable accumulation. On the other hand, social assistance programs do provide their clients with additional income that may be used to purchase consumer durables (in some cases, programs may make special one-off benefits available precisely for this type of purchase). Thus, the programs' effect on the accumulation of consumer durables is ambiguous.

Arrears in existing payment schedules are not technically part of assets. Yet, debts do contribute to a household's net worth. It is not always clear how to interpret household debt. Often, debt is simply a sign of a household's access to the credit market, rather than a sign of financial vulnerability. What is more, debt in the form of credit is often used to build up assets, such as in the case of home mortgages or business loans. Arrears however paint a much clearer picture. Since they represent missed payments that often lead to penalties, stain credit histories and are directly endangering a household's existing possessions, they clearly indicate financial vulnerability. Means tested income support programs do not take into account negative wealth (i.e. debt) when determining entitlement. Consequently, asset tests are unlikely to be in any way related to the built-up of debt arrears. Conversely, the income floor guarantee present in a floor could add to arrear build-ups. The rationale is similar to precautionary saving. Households with lifetime low incomes might be more likely to resort to risky credit if they can count on an income source at all times. A higher income floor should therefore be associated with more arrears. Income provided by social assistance could also minimize arrears. Households that lose other income sources may still rely on this type of benefit to pay off existing debts, and thus avoid arrears. In this case, higher benefits should be associated with fewer arrears.

Financial assets are most likely to be negatively affected by the existence of means-tested programs. This form of savings lacks direct consumption value and is by its nature liquid and thus very easily convertible into income. It is thus perhaps best suited to insure against short and medium term income shocks. At the same time, financial assets are both easiest to detect and highly expected to be run down before public support kicks in. To sum up, both the income floor effect and the asset test effect are likely to depress financial assets. Theoretically, social assistance income could be saved and thus, it could (up to the asset limit) contribute to increased savings. However, this is a highly unlikely outcome given that in all countries social assistance is set so as to cover only minimum consumption needs.

Finally, means-tested income support programs are expected to also depress asset generated income. First, any type of assets underlying this type of income is both very likely to preclude participation in social assistance schemes and to be liable to depressed precautionary saving generated by the existence of a guaranteed income floor. Moreover, asset generated income is also part of the income test the household has to undergo in order to establish entitlement. Thus, it is subject to a marginal tax rate of 100%. Low-income households may be unwilling to invest in income generating assets under these conditions.

6.5.2 DATA AND METHODS

All the analyses are based on the 2007 European Union Survey of Income and Living Conditions longitudinal database (second version, released in March 2010[192]). Data regarding maximum benefits to which a family is entitled as well as the existence of asset test has been retrieved from the Mutual Information System on Social Protection Database (European Commission 2010).

Four separate sets of models have been constructed corresponding to the four types of asset variables. Both consumer durables and arrears are represented by an index constructed based on item response theory (ITR). An ITR model has been estimated using five indicators in the case of consumer durables (possession of a phone, a colour TV, a computer, a washing machine and a car) and three indicators in the case of arrears (existence of mortgage arrears, utility payment arrears and other purchase arrears). Indexes have been computed by predicting a single latent factor. A separate ITR model has been estimated for each country and each year in the dataset, thereby allowing the impact of the indicators on the latent factor to differ across countries and years.

Two program variables have been constructed, corresponding to the income floor and asset tests present in a country's social assistance program. Information on program rules[193] for eligibility has been used to compute the maximum benefit a family may have been awarded[194] during the income reference period, based on the age and number of its members. This is referred to as the income floor guaranteed by the program for the respective household. The income floor is the theoretical amount of social assistance a household would be entitled to should it lose all its income sources[195]. To maximize comparability, the maximum family benefit is expressed in consumption-based purchasing power parities[196], as well as adjusted for inflation[197]. Both adjustments have been made using the EUROSTAT compiled indicators on consumer price indexes and purchasing power parities (see http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database)

Regrettably, the information provided by the MISSOC database on asset tests is much vaguer than that on benefits. Only a few countries explicitly detail the contents of their asset test, a majority just stating its existence[198]. As a consequence, just a crude asset test indicator could be constructed. It contains information on the existence or absence of an asset test[199], and in the

[192]Further information and accompanying documentation of EU-SILC can be found at http://epp.eurostat.ec.europa.eu/portal/page/portal/microdata/eu_silc.
[193] Rules may differ both across countries and across years.
[194] Zero income is assumed.
[195] It is thus entirely different from received social assistance.
[196] The EU 27 mean is taken as 1.
[197] The CPI for 2005 is taken to represent 100.
[198] To some extent, the lack of clarity is due to ambiguities in the national legislation itself. Furthermore, local or regional authorities may be given discretion in establishing entitlement, and therefore in the interpretation of asset limits provisions present in legislation.
[199] When an asset test is not mentioned anywhere among eligibility conditions, it is assumed to be absent.

case of its existence whether any significant (larger or equal to 1000 Euros) disregards are allowed[200].

To identify the impact of the income floor effect, variation across households, countries and time is used. To account for the clustering of the data, two and three level hierarchical models have been used. Household observations are nested within households and, in turn, these are nested within countries. This strategy not only adjusts standard errors due to non-independence of observations, but also implicitly introduces controls for household and country time-invariant characteristics.

All the hypotheses that have been discussed so far refer to the low long-term income population. Long term or lifetime income is, of course, unobservable. Current income is often too variable to be reliably used as a proxy for long-term income. As a result, two alternative definitions have been used to delimitate the low-income population. Firstly, because lack of education often acts as a barrier to upward mobility, the maximum level of education attained by a household member is used as a criterion. Low-income households are defined as households in which no member received post-secondary education. Secondly, use is made of the panel nature of the data. Since household income is observed in three and sometimes four consecutive years, low income households are defined as those households that are consistently found in the bottom two income[201] quintiles of the population. Applying the second criterion yields a much more reduced sample compared to the first one. For every dependent variable, two sets of models are presented. Each set corresponds to a different estimation sample defined using the education and the income criteria, respectively.

All sets of models contain several different specifications as the list of control variables is gradually expanded. Two types of control variables have been included: single parent family, no of children (<18); no of young children (<7), no of retired persons (>64), at the household level, and GDP per capita and the national unemployment rate during the previous year, at the country level. The selection of controls has been based on potential confounders of the relationship between the program characteristics faced by a given household and its assets. All are time-varying covariates that have the potential to influence both asset accumulation and benefits and eligibility in the event of participation in a social assistance program. Single parent households and households with children are more likely to both be asset poor (as they have not had the time or the resources to accumulate them), and more likely to be awarded social assistance benefits when claiming. Due to concerns regarding child poverty, often means-tested income support incorporates generous equivalence scales for children (in some cases counting them more than additional adults)[202]. Single parents are also, in some cases, awarded additional benefits under social assistance programs. Retired persons, on the other hand, are more likely to have

[200] In the case the asset test is just mentioned, no disregards are assumed.
[201] Income refers to household equivalised income.
[202] See European Commission, D. E., Social Affaires and Equal Opportunities (2010). Mutual Information System on Social Protection Database, European Commission; http://ec.europa.eu/employment_social/missoc/db/public/compareTables.do?lang=en.

accumulated assets and less likely to be social assistance clients due to minimum pension provisions. At the country level, benefits are likely to be cut in a recession and raised in times of economic boom especially in small Central European countries which have little leeway for anti-cyclical policies and are very vulnerable to high budget deficits. These same underlying economic trends however may also be responsible for asset depletion.

One consistent finding of the savings literature is that saving behaviour is intimately linked to the life cycle (Browning and Lusardi 1996). Hence, the impact of disincentives from public assistance is also likely to vary with the life cycle. Since young families are disproportionately more likely to rely on social assistance (see Chapter 4) and since they also face significant barriers to saving, they might respond more rapidly to the income floor and asset test in a public income support program. In an attempt to capture potential differential effects of the income floor, interaction variables have been constructed for single parent, number if young children, and number of retired persons in the household. Additionally, the program impact is likely to become stronger as the household income decreases. Thus, average program effects in a larger sample, where a significant proportion of households have incomes that are substantially above the guaranteed income threshold, may be undetectable. As a result, an interaction term between household income floors and household net equivalised disposable income has been introduced in the model specifications relating to the education-based low-income household sample. Finally, since income floor effects may vary according to other context features such as the economic background or the larger institutional framework, random slope effects for income floor have been estimated.

It should be noted at this point that results pertaining to asset test effects should be regarded only as indicative, and not definitive. Unlike the income floor, asset tests vary only across countries, and are constant both across households and across time. As a result, there is too little variation to identify effects and too many confounding factors at the country level. Nevertheless, the analysis still allows for a prima facie test of asset based eligibility effects on asset accumulation among the low-income household population.

6.6 SOCIAL ASSISTANCE INCOME FLOOR EFFECTS

6.6.1 SAMPLE DESCRIPTIVES

Mean values for the four dependent variables, as well as all household explanatory variables included in the models are shown in Table 1 below, separately for the two estimation samples and for the entire sample of households. It clearly becomes apparent that the income based definition of the low-income household population produces a much more restricted sample, containing a higher share of single parents, a higher average number of children (but not of young children), and a lower average number of working age adults. The average number of

retired persons is very similar in the two subsamples and close to the figure for the total sample. From a demographic point of view, the education based subsample resembles the total, whereas in the income based subsample households with fewer adults and more children are overrepresented.

As expected, the average disposable income is smaller in both samples compared to the average for all households, but substantially smaller in the second sub-sample. Education levels though are comparable in the two low income subsamples, but of course, well below the average educational level for the entire household population.

The disadvantaged nature of households in both samples is apparent from the asset variables as well. Both samples contain households that have, on average, fewer consumer durables compared to the total. Accumulation of arrears is also higher, whereas asset generated income and capacity to face unexpected financial expenses decrease. Lack of assets is more prevalent in the second estimation sample, as households register, on average, lower scores on the consumer durables index, on asset generated income (which is only about a sixth compared to that in the total sample) and on the capacity to handle unexpected expenses. The arrears index, on the other hand, is higher.

Table 6.1 Descriptive statistics (means) of included variables in the two estimation samples

	Education based definition	Income based definition	Total
Durables index	-0.355	-0.959	0.0014
Arrears Index	0.282	0.613	0.1634
Asset Income	56.37	13.73	88.80
Capacity to face financial expenses (%)	40.83	25.70	48.84
Max entitlement (Euros)	340	297.50	335.76
Single parents (%)	10.74	14.22	10.95
Average no of children	0.55	0.66	0.56
Average no of young children(<7)	0.16	0.18	0.17
Number of retired	0.48	0.49	0.43
Number of adults	1.68	1.46	1.81
HH annual disposable income	4228.46	2596.05	4875
Maximum education of a household member (ISCED)	3.67	3.69	4.32
N	84375	20403	122525

Source: Own calculations based on the 2007 EU-SILC longitudinal database

Last but not least, maximum family entitlements are relatively similar in the total sample and the one constructed using the education criterion. Maximum family entitlement is somewhat lower though in the sample constructed using the disposable income criterion. This finding suggests that these households are likely to be smaller or contain members awarded proportionally smaller benefits (such as children).

6.6.2 INCOME FLOOR EFFECTS ON CONSUMER DURABLES

Estimates of the effect of the household specific income floor on the possession of consumer durables are presented in Table 2. The left-hand side of the table shown results derived based on the education based subsample, whereas the right-hand side presents estimates constructed using the income based subsample. Generally, estimates are consistent both across different model specifications and across estimation samples. In all cases the effect of the maximum benefit entitlement on the household's consumer durables is positive and statistically significant at the 99% level. When the full set of household and country controls is introduced (Models1-3 and 2-3), each 100 PPP (in 2005 Euros) in the monthly income floor raises the household consumer durables index, on average, by 0.06and 0.08 points, respectively. These effects are both statistically significant and relatively large in substantive terms, amounting to 6 and 8% of a standard deviation[203].

The introduction of the three interaction terms (Models 1-4 and 2-4) raises the magnitude of the main effect to 0.09 and 0.13 points increase per 100 PPP respectively. In addition, both models suggest that the impact of the public assistance income floor diminishes for households containing single parents, young children and retired persons. The last model of the left-hand side panel also indicates that, as expected, the positive impact of the income floor is gradually attenuated as the household income rises. Finally, the last two models specifications (1-6 & 2-5) allow the effect of the income floor to vary across countries. It immediately becomes apparent that the country mean for the effect is much larger than the population average in the first estimation sample, but not in the second. However, both random slope models indicate that the random variation in county income floor effects is statistically different from zero. Unsurprisingly, the variation is much lower when a smaller sample is used. However, the average effect across countries is also smaller indicating that un-modelled cross country heterogeneity in the larger sample may be, to some extent, driving the findings.

To gain a clearer picture of how the income floor effects vary across countries, Table 3 below displays the best unbiased linear predictors (BLUP) estimators for all country random effects. The results should be interpreted with caution as there is a very small number of units at the country level, and the model may not be very well identified. That caveat aside, the most notable finding is that country random effects are relatively small in comparison to the country

[203] Keep in mind that the index has (by design) a variance of 1 and mean of 0.

Table 6.2 Social assistance income floor effects on possession of durables

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Mode1-6	Model2-1	Model2-2	Model2-3	Model2-4	Model2-5
Fixed effects											
Maximum Family Benefit	0.003	3.3E-04	3.7E-04	7.5E-04	5.9E-04	0.0005	0.003	0.003	5E-04	9E-04	2 E-04
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.004)	(0.000)	(0.005)	(0.000)	(0.000)	(0.517)
Single parent		-0.1343	-0.1341	-0.0668	-0.0623	-0.1330		0.0397	0.0409	0.0421	0.0469
		(0.000)	(0.000)	(0.045)	(0.058)	(0.000)		(0.295)	(0.280)	(0.531)	(0.215)
Number of children		0.3954	0.3899	0.3636	0.3861	0.4037		0.3791	0.3532	0.3268	0.3647
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)		(0.000)	(0.000)	(0.000)	(0.000)
Number of children under 7		-0.3025	-0.3021	-0.0723	-0.0160	-0.2978		-0.2370	-0.2381	-0.0583	-0.2342
		(0.000)	(0.000)	(0.001)	(0.480)	(0.000)		(0.000)	(0.000)	(0.152)	(0.000)
Number of working-age adults		0.4994	0.4983	0.4786	0.4730	0.4901		0.4356	0.4357	0.4179	0.4395
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)		(0.000)	(0.000)	(0.000)	(0.000)
Number of retired persons (>64)		0.0151	0.0184	0.0749	0.0754	0.0179		0.0927	0.1115	0.1533	0.1105
		(0.209)	(0.126)	(0.000)	(0.000)	(0.141)		(0.000)	(0.000)	(0.000)	(0.000)
Unemployment rate - Previous year			0.0264	0.0291	0.0332	0.0309			0.0270	0.0303	0.0298
			(0.000)	(0.000)	(0.000)	(0.000)			(0.000)	(0.000)	(0.000)
GDP/capita Previous year			-1.3E-05	-1.4E-05	-4.0E-05	-3.4E-05			-7E-05	-7.3E-05	-6E-05
			(0..003)	(0.000)	(0.000)	(0.000)			(0.000)	(0.000)	(0.000)
Max Family Benefit*				-1.1E-04	-1.1E-04					2.8E-05	

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Mode1-6	Model2-1	Model2-2	Model2-3	Model2-4	Model2-5
Fixed effects											
Single parent				(0.158)	(0.158)					(0.877)	
Max Family Benefit* No children<7				-4.7E-04 (0.000)	-3.4E-04 (0.000)					-4.1E-04 (0.000)	
Max Family Benefit* No persons>64				-5.7E-05 (0.000)	-5.4E-05 (0.000)					-5.6E-05 (0.000)	
Household disposable income					6.3 E-05 (0.000)	4.8E-05					
Max Family Benefit* Household income					-3.0E-05- (0.000)						
Random Intercept (SD)-Country Level	0.4246 (0.000)	0.2028 (0.000)	0.2428 (0.000)	0.2524 (0.000)	0.2734 (0.000)	0.2772 (0.000)	0.3870 (0.000)	0.1629 (0.000)	0.3027 (0.000)	0.3231 (0.000)	0.2914 (0.000)
Random Slope-Max Family Benefit- Country level						0.0004 (0.000)					0.0006 (0.000)
Random Intercept -(SD) HH level	1.3593 (0.000)	1.2172 (0.000)	1.2174 (0.000)	1.2045 (0.000)	1.1697 (0.000)	1.1836 (0.000)	1.3768 (0.000)	1.2555 (0.000)	1.2567 (0.000)	1.2443 (0.000)	1.2502 (0.000)
Residual Variance	0.6843	0.6821	0.66814	0.6825	0.6864	0.6854	0.7199	0.7171	0.7128	0.7133	0.7132
N	84368	84368	84368	83880	83851	84368	20403	20403	20403	20321	20403

Note: p values in parentheses

Source: Own calculations based on the EU-SILC longitudinal database.

average. Indeed, in the overwhelming majority of the cases they are statistically equal to zero, irrespective of which model specification is used to derive them. In fact, when computing them from Model2-5, country effects are statistically indistinguishable from zero everywhere but in Slovenia, possibly due to the smaller sample size. In Slovenia, the effect of the maximum family benefit is slightly higher than the country average. When computations are based on Model1-6, the impact of a higher social assistance income floor is lower in the Czech Republic, Hungary and the Slovak Republic, while being larger in Latvia and Lithuania. The magnitude of the country effects are large enough to cancel the positive main effect in the Czech Republic, Hungary and the Slovak Republic and to almost double the main effect in the two Baltic countries.

	Model 1-6			Model2-5		
Country	Estimate	95% CI		Estimate	95%CI	
CZ	-2.15E-05	-5.77E-05	1.78E-04	3.64E-04	-1.49E-04	4.60E-04
EE	1.99E-04	-1.84E-04	5.68E-04	1.49E-04	-2.96E-04	9.14E-04
HU	-4.71E-04	-7.95E-05	2.45E-04	-3.62E-04	-1.65E-04	5.07E-04
LV	3.56E-04	-2.16E-04	6.67E-04	-6.17E-04	-4.46E-04	1.38E-03
LT	5.79E-04	-2.26E-04	6.96E-04	1.45E-04	-3.43E-04	1.06E-03
PL	1.32E-04	-2.90E-04	8.94E-04	-6.23E-04	-4.70E-04	1.45E-03
SI	-1.99E-04	-6.56E-05	2.02E-04	1.09E-03	-1.54E-04	4.73E-04
SK	-5.76E-04	-9.22E-05	2.84E-04	-1.45E-04	-2.19E-04	6.76E-04

Table 6.3 Income floor impact on consumer durables-country random effects
Source: Own calculations based on the EU-SILC 2007 longitudinal database

The control variables largely behave as expected. Furthermore, the estimated effects are invariant to model specification. Households with more income are more likely to possess more consumer durables. Conversely, households with young children are less likely to own consumer durables. On the contrary, having more older children is associated with having, on average, more consumer durables. This is not entirely surprising if the child variables are seen as a marker of a household's "age". Households that have been started earlier are more likely to contain more old children and fewer young children. They are also more likely to have had the time to accumulate durables. Single parenthood is detrimental to asset accumulation, albeit the effect is not statistically significant in the second estimation sample. However, note that no dependency ratio effects, i.e. having fewer adults in the household, are captured by the coefficient for single parenthood. Due to the way the variable has been defined[204], single parents may live in households that contain more than one adult (for example, in an extended family household). Not surprisingly, the number of working –age adults has a very large positive effect on owning

[204] The dummy takes on the value of one if having underage children in the household and not cohabiting, either legally (including marriage) or informally; indeed, the term parent is used loosely to encompass both parents and other guardians.

durables (the index is raised about half a standard deviation for each extra adult). Possibly reflecting life cycle effects, households containing more retired persons are more likely to have a higher consumer durables index in the income based sample.

Lastly, country level features display some puzzling patterns. Contrary to expectation, a higher unemployment rate during the previous year raises the expected consumer durables index[205]. The effect is stable and statistically highly significant. On the other hand, an increase in the GDP per capita seems to have a negative effect on durables possessions, but only at the bottom of the income distribution.

6.6.3 INCOME FLOOR EFFECTS ON THE ACCUMULATION OF ARREARS

Income floor effects on the accumulation of arrears are shown in Table 4. Initially, as predicted, a higher income floor raises the score on accumulated arrears. On average, an increase of 100 PPPs (in 2005 terms) increases the expected arrears index by 10% of a standard deviation in the education based sample and by 30% in the income based one. These are large effects indeed. The introduction of household and country level covariates reduces the estimated effect in the first sample, but not in the second. When the full set of household and country level variables is present (Models 1-3 and 2-3), the index of accumulated arrears is predicted to increase with approximately 1% in the larger sample and 20% in the second, smaller sample for each 100 PPPs of the income floor.

The effects are heterogeneous across the income distribution. Notably, a higher income floor is associated with an increased likelihood of cumulating arrears only at the bottom of the income distribution[206]. Other household characteristics, such as single parenthood, number of young children or number of retired, do not seem to affect the magnitude of the income floor effect. Interaction terms are statistically insignificant both in all three models where they are included (i.e. Model 1-4, 1-5 and 2-4).

Finally, the last two models (1-6 & 2-5) allow for the effect of the income floor to vary across countries[207]. In both models, standard errors for the random slope suggest there is statistically significant cross-national differentiation in the main effect of the public assistance income floor. To gain a clearer picture of the cross-national patterns, Table 5 displays predicted country random effects using posterior Bayesian probabilities. Despite being relatively large in magnitude, country random slope effects are imprecisely estimated. As a result, only in Estonia do they remain statistically significant in both models, while in Lithuania they are statistically different from zero only in Model 1-6. Nonetheless, results are consistent across estimation.

[205] Similar results are obtained when the current unemployment rate is used instead of the lagged rate.
[206] Notice that the coefficient becomes larger when low income is more accurately modeled, i.e. in Model 1-5 and in the Models based on the second, more restricted, sample.
[207] Note that to keep only one random slope, the interaction variables are removed.

Table 6.4 Social assistance income floor effects on accumulation of debts (arrears)

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Model1-6	Model2-1	Model2-2	Model2-3	Model2-4	Model2-5
Fixed effects											
Maximum Family Benefit	0.001 (0.000)	0.001 (0.000)	0.001 (0.000)	7.8E-04 (0.000)	0.001 (0.000)	0.001 (0.009)	0.003 (0.000)	0.003 (0.000)	0.003 (0.000)	0.0027 (0.000)	0.004 (0.001)
Single parent		0.4874 (0.000)	0.4881 (0.000)	0.1570 (0.042)	0.1370 (0.074)	0.4639 (0.000)		0.3767 (0.000)	0.3880 (0.000)	0.2867 (0.091)	0.3366 (0.000)
Number of children		0.1848 (0.000)	0.1889 (0.000)	0.1872 (0.000)	0.1483 (0.000)	0.1381 (0.000)		0.0579 (0.144)	0.0766 (0.055)	0.0656 (0.108)	0.0101 (0.807)
Number of children under 7		0.0636 (0.056)	0.0633 (0.057)	-0.0034 (0.950)	-0.0527 (0.344)	0.0667 (0.044)		-0.0934 (0.194)	-0.0941 (0.191)	-0.0693 (0.524)	-0.0728 (0.307)
Number of working -age adults		-0.0559 (0.001)	-0.0540 (0.001)	-0.0452 (0.010)	-0.0174 (0.306)	-0.0502 (0.006)		0.0055 (0.880)	0.0017 (0.963)	0.0012 (0.975)	-0.0339 (0.389)
Number of retired persons (>64)		-0.3993 (0.000)	-0.4010 (0.000)	-0.3615 (0.000)	-0.3627 (0.000)	-0.4135 (0.000)		-0.6519 (0.000)	-0.6691 (0.000)	-0.6149 (0.000)	-0.6059 (0.000)
Unemployment rate Previous year			-0.0103 (0.440)	-0.0091 (0.495)	-0.0133 (0.315)	-0.0126 (0.288)			-0.0073 (0.799)	-0.0067 (0.814)	-0.0258 (0.308)
GDP/capita Previous year			5E-05 (0.001)	5E-05 (0.001)	9E-05 (0.000)	7E-05 (0.000)			2E-04 (0.000)	2E-04 (0.000)	2.6E-04 (0.000)
Max Family Benefit* Single parent				0.001 (0.000)	0.001 (0.000)					4E-04 (0.418)	
Max Family Benefit*				1.3E-04	-3.1E-05					-5.4E-04	

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Model1-6	Model2-1	Model2-2	Model2-3	Model2-4	Model2-5
Fixed effects											
No children<7				(0.128)	(0.725)					(0.767)	
Max Family Benefit*				-2.5E-05	-3.1E-05					-4.3E-05	
No persons>64				(0.000)	(0.000)					(0.023)	
Household disposable income					-9.1E-05	-7E-05					-3.5E-04
					(0.000)	(0.000)					(0.000)
Max Family Benefit* Household income					3.3E-05						
					(0.000)						
Random Intercept (SD) -Country Level	0.3175	0.2536	0.3488	0.3342	0.3127	0.1722	0.5144	0.4227	0.8643	0.8455	0.3774
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.017)
Random Slope- Max Family Benefit- Country level						0.0015					0.0030
						(0.000)					(0.000)
Random Intercept (SD) -HH level	1.945	1.9016	1.9015	1.9006	1.8798	1.8800	2.0733	2.0142	2.0152	2.0150	1.9719
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Residual Variance	2.444	2.447	2.447	2.450	2.453	2.448	2.804	2.807	2.802	2.806	2.796
N	83295	83295	83295	82817	82788	83266	20076	20076	20076	19994	20075

Note: p-values in parentheses

Source: Own calculations based on the 2007 EU-SILC longitudinal database.

samples for all countries suggesting a lower impact of the income floor on the accumulation of arrears in the Czech Republic, Hungary, Latvia, Lithuania and Slovenia, while and a larger one in Estonia, Poland and the Slovak Republic. Combined with the main effect, results suggest a positive impact of the income floor on the arrears index everywhere but in Lithuania, Slovenia and possibly Latvia.

It is not clear what program characteristics drive the cross-national heterogeneity in impact, if any. Examples of strong income floor effects on debt accumulation can be found both among countries with relatively more generous social assistance programs (for example, the Slovak Republic) and among countries with more restrictive assistance benefits (for example, Estonia). Overall, there is some indication that social assistance might be playing a negative effect on indebtedness, possibly by encouraging households to take on debt[208].

Table 6.5 Income floor effects on arrears accumulation-country random effect

	Model 1-6			Model2-5		
Country	Estimate	95% CI		Estimate	95%CI	
CZ	-1.97E-04	-4.30E-04	3.60E-05	-7.96E-04	-1.42E-03	-1.68E-04
EE	3.57E-03	2.70E-03	4.43E-03	6.42E-03	4.80E-03	8.03E-03
HU	-6.37E-04	-9.75E-04	-2.98E-04	-2.03E-03	-2.77E-03	-1.28E-03
LV	-1.20E-03	-2.18E-03	-2.34E-04	-1.33E-03	-3.82E-03	1.16E-03
LT	-1.17E-03	-2.15E-03	-1.83E-04	-3.11E-03	-4.76E-03	-1.46E-03
PL	4.63E-04	-8.94E-04	1.82E-03	1.62E-03	-1.30E-03	4.55E-03
SI	-7.76E-04	-1.04E-03	-5.09E-04	-2.41E-03	-3.07E-03	-1.74E-03
SK	-4.82E-05	-4.35E-04	3.39E-04	1.63E-03	6.36E-04	2.62E-03

Source: Own calculations based on the EU-SILC 2007 longitudinal database

Coefficients of control variables for the most part have the expected sings. Households containing single parents are more likely to accumulate debt arrears. The effect is particularly large, at around a third of a standard deviation. A larger number of children present in the household is also linked to increased arrears. Having more children also raises the expected arrears index, particularly in the first estimation sample. Partly reflecting much lower debt levels, households composed of retired persons are much less likely to have amassed arrears. On the other hand, the arrears index drops as the number of working age adults in the household rises, albeit the effect is detectable only in the education based subsample.

Finally, the lagged unemployment rate seems to play no role in the arrears accumulation process[209] , while the GDP/capita indicator is positive and significant. Thus, a higher

[208] A selection effect may also be responsible for this result if social assistance administrators are more likely to grant benefits to indebted households and low-income households are aware of this fact; in this case, it is not the income floor itself but the screening process embedded in social assistance that is driving the negative effects.

[209] It should be kept in mind though that the analyzed period (2003-2006) is a period of economic growth and falling unemployment in all the countries under review.

GDP/capita in the previous year is likely to raise the index of accumulated arrears. This impact is particularly large at the bottom of the income distribution[210], suggesting the low income families may be more likely to take on excessive debt in times economic boom.

6.6.4 INCOME FLOOR EFFECTS ON THE POSSESSION OF INCOME GENERATING ASSETS

Ideally, social assistance income floor effects would be tested directly against the size of income generating assets a household possesses. Since the EU-SILC does not contain information on assets themselves, asset generated income is used as a proxy. The analysis is carried out in two steps. First, a two-level logistic regression estimates income floor effects on the likelihood of having positive asset income. Because a three level model has been found to have convergence problems, countries are introduced as dummies. Admittedly, this is only a rough proxy that underestimates the percentage of the population holding assets, if no income has been derived from them during the income reference period. In a second step, the amount of the income generated from assets is used as a proxy of the size of the assets themselves. Whereas in principle the amount of the income stream and the value of the assets behind it should closely correlate, there are two caveats to be mentioned. Saving and investment behaviour are known to be dependent on the stage of the life course (see the discussion in section IV). As a consequence, the relationship between asset income and the underlying assets will differ across households. For example, younger households may be willing to rely on riskier asset investment strategies that usually yield a higher rate of return. Relying on asset income to impute their assets will lead to overestimation. Conversely, the assets of older households that are usually prone to pursue safer asset investment strategies will be underestimated. Other household characteristics might similarly influence the relationship between asset income and assets. Similarly, if broader economic, social or cultural factors at the national level affect the propensity to invest in different types of assets, the relationship between asset income and assets will vary not only across households but across countries[211]. Despite these limitations, asset income is the best available proxy for the amount of assets themselves. Therefore, the analysis proceeds by estimating social assistance income floor effects on asset income (in logarithmic form), conditional on having such assets (i.e. asset income is positive).

Table 6 below shows results of program effects on the presence or absence of asset generated income. In the simplest models in which only countries and household random intercepts are controlled for (Models 1-1 and 2-1), a higher income floor actually increases the likelihood of owning income generating assets. The effect is highly statistically significant and large in magnitude: an increase of 100 PPP (in 2005 Euros) triggers an increase in the

[210] Notice the difference in magnitude between Models 1-3/1-5 and Models 1-6 &2-3/2-5.
[211] This is partly solved by using a three level hierarchical model that implicitly controls for time-invariant country characteristics.

Table 6.6 Social assistance income floor effects on the likelihood of having positive asset generated income

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Model2-1	Model2-2	Model2-3	Model2-4
Fixed effects									
Maximum Family Benefit	1,0016 (0,000)	1,0018 (0,000)	1,0011 (0,000)	1,0015 (0,000)	1,0009 (0,000)	1,0011 (0,003)	1,0011 (0,118)	1,0004 (0,536)	1,0002 (0,815)
Single parent		0,7081 (0,001)	0,7049 (0,001)	0,8180 (0,334)	0,7864 (0,000)		0,7974 (0,282)	0,7923 (0,287)	0,6927 (0,391)
Number of children		0,8191 (0,000)	0,8641 (0,003)	0,8631 (0,003)	0,9859 (0,762)		0,8577 (0,135)	0,9658 (0,743)	0,9851 (0,890)
Number of children under 7		0,8390 (0,024)	0,8238 (0,015)	0,8748 (0,380)	0,8331 (0,020)		0,8581 (0,378)	0,8514 (0,371)	0,7200 (0,305)
Number of working -age adults		1,0996 (0,045)	1,3964 (0,008)	1,1326 (0,011)	1,0896 (0,046)		1,2352 (0,035)	1,2529 (0,028)	1,2694 (0,024)
Number of retired persons (>64)		1,0648 (0,338)	1,0608 (0,377)	1,0419 (0,562)	1,1483 (0,028)		1,7007 (0,000)	1,6648 (0,001)	1,5649 (0,005)
Unemployment rate Previous year			0,6069 (0,000)	0,6078 (0,000)	0,6125 (0,000)			0,5829 (0,000)	0,6601 (0,000)
GDP/capita Previous year			1,0001 (0,000)	1,0001 (0,000)	1,00005 (0.003)			1,0002 (0,000)	1,0002 (0,000)

Max Family Benefit*				0,9996					1,0003
Single parent				(0,385)					(0,748)
Max Family Benefit*				0,9999					1,0003
No children<7				(0,684)					(0,483)
Max Family Benefit*				1,00001					1,0000
No persons>64				(0,393)					(0,209)
Household disposable income					1,0002 (0,000)				
Random Intercept (SD) -HH level	10,792 (0,000)	10,775 (0,000)	11,413 (0,000)	11,383 (0.000)	10,650 (0,000)	9,544 (0,000)	9,719 (0,000)	10,595 (0,000)	10,617 (0,000)
N	84370	84370	84370	83882	84341	20403	20403	20403	20321

Note: coefficients represent odds ratios; p-values in parentheses
Source: Own calculations based on the 2007 EU-SILC longitudinal database

odds ratio of owning versus not owning of about 17 percentage points. Adding more household level characteristics does not affect the size of the coefficient in the first estimation sample (with the exception of income) but it does reduce it slightly in the second. In the second sample, introducing household and country level covariates wipes out the statistical significance of the income floor coefficient. It also reduces the size of the coefficient to about a tenth of its initial value. Controlling for disposable income also reduces the size of the coefficient in the first estimation sample, albeit it remains well above the statistical significance threshold.

Household and country level variables generally have the expected effects. Families having more children, and especially more young children are less likely to have income from assets. This is to be expected since households with young children are themselves "young" so they have had fewer opportunities to amass income generating assets. On the contrary, families where there are more working age adults or more retired persons are more likely to report some asset generated income. This pattern is much more visible in the second, lower income estimation sample. The coefficient for single parenthood has the expected sign and is highly statistically significant. As expected, a higher unemployment rate in the previous year depressed the likelihood of having positive asset income, while a higher GDP/capita increases it. Generally, both estimation samples yield coefficients that are very similar in magnitude, although due to its lower size, coefficients for the second sample are less often statistically significant. Adding in country level controls does not change the impact of the household features.

All six specifications point to substantial and significant variance to be explained at the household level, i.e. by household "fixed" characteristics. Country level coefficients (not shown) are relatively large and statistically significant. Countries with the largest share of low income households deriving income from assets are Estonia, Poland and the Slovak Republic.

Social assistance income floor effects on asset income[212], conditional on having positive asset income are described in Table 7. Note that both sample sizes shrink considerably due to the discarding of all household-years for which asset income is zero. The maximum family social assistance benefit is negative and statistically significant in most specification. However, in substantive terms, its size is relatively small in the first sample. Estimated coefficients are notably larger in the second, poorer estimation sample. Increasing the maximum annual benefit a household may be entitled to by 100 PPP (in 2005 Euros) decreases the predicted asset incomes by approximately 15 percentage points. This is quite a large effect. Moreover, the coefficient is relatively stable regardless of the presence or absence of other controls. Models 1-6 and 2-5 contain, on top of household and country features, interaction terms for countries. The impact of the income floor on income derived from assets appears to be absent in Estonia.

Household characteristics have coefficients that conform to the predicted pattern. Single parenthood tends to lower asset income, albeit in the second sample the coefficient is insignificant. Analyses undertaken using the first larger sample point towards single

[212] For all countries, asset income is expressed in Euros and then it is transformed in logarithmic form. Using the logarithmic form necessitates the exclusion of cases with zero asset income.

Table 6.7 Social Assistance Income Floor Effects on Ln(Asset Income), conditional on having positive asset income

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Model1-6	Model2-1	Model2-2	Model2-3	Model2-4	Model2-5
Fixed effects											
Maximum Family Benefit	8,7E-05 (0,429)	-3,6E-04 (0,118)	-3.4E-04 (0,119)	-4.6E-04 (0.056)	-7,9E-04 (0,001)	-3E-04 (0,266)	7,3E-05 (0,762)	-0,001 (0,003)	-0,0015 (0,003)	-0,0015 (0,005)	-0,0015 (0,012)
Single parent		-0,3424 (0,000)	-0,3434 (0,000)	-0.6077 (0,000)	-0,4865 (0,003)	-0,3579 (0,000)		-0,1284 (0,389)	-0,1256 (0,401)	-0,4598 (0,126)	-0,15461 (0,302)
Number of children		0,0242 (0,512)	0,0257 (0,488)	0,0353 (0,344)	0,1120 (0,002)	-0,0309 (0,461)		0,1534 (0,042)	0,1575 (0,038)	0,1583 (0,040)	0,0421 (0,640)
Number of children under 7		-0,1668 (0,004)	-0,1685 (0,003)	-0.1800 (0,156)	-0.0917 (0,471)	-0,1648 (0,004)		-0,1739 (0,154)	-0,1749 (0,152)	0,0945 (0,731)	-0,1455 (0,234)
Number of working -age adults		0,1281 (0,001)	0,1259 (0,001)	0,1295 (0,001)	0,1183 (0,002)	0,0472 (0,322)		0,3204 (0,000)	0,3119 (0,000)	0,3068 (0,000)	0,1615 (0,098)
Number of retired persons (>64)		0,1512 (0,004)	0,1459 (0,005)	0,1087 (0,046)	1,577 (0.003)	0,0628 (0,290)		0,3493 (0,001)	0,3341 (0,002)	0,3251 (0,004)	0,1640 (0,193)
Unemployment rate Previous year			-0,0400 (0,162)	-0,0398 (0,166)	-0,0456 (0,057)	-0,0405 (0,159)			0,0128 (0,105)	0,0140 (0,796)	0,0190 (0,725)
GDP/capita Previous year			2,7E-05 (0,244)	2,8E-05 (0,235)	-4.4E-05 (0,057)	2.7E-05 (0,257)			8E-05 (0,096)	8E-05 (0,091)	8E-05 (0,079)
Max Family Benefit* Single parent				4,8E-04 (0,125)	3.2E-04 (0,286)					7.3E-04 (0,222)	
Max Family Benefit*				1,3E-05	2.2E-04					-4.1E-04	

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Model1-6	Model2-1	Model2-2	Model2-3	Model2-4	Model2-5
Fixed effects											
No children<7				(0,937)	(0,178)					(0,270)	
Max Family Benefit*				2E-05	2.5E-05					3.8E-06	
No persons>64				(0,021)	(0,002)					(0,862)	
Household disposable income					1,2E-04 (0,000)						
Max Family Benefit* Household income					-3,5E-05 (0,000)						
Maximum Family Benefit-EE						0,0023 (0,003)					0,0029 (0,028)
Maximum Family Benefit-HU						0,0013 (0.096)					-1.6E-04 (0,958)
Maximum Family Benefit-LV						1E-04 (0,945)					0,0023 (0,309)
Maximum Family Benefit-LT						0,0023 (0,336)					0,0056 (0,209)
Maximum Family Benefit-PL						0,0002 (0,973)					0,0101 (0,503)
Maximum Family Benefit-SI						4,5E-04 (0,077)					0,0011 (0,055)
Maximum Family Benefit-SK						6E-04 (0,199)					0,0017 (0,127)
Random Intercept (SD) -HH level	2,119 (0,000)	2,098 (0,000)	2,107 (0,000)	2,1024 (0,000)	1,9071	2,099 (0,000)	1,3985 (0,000)	1,3581 (0,000)	1,3750 (0,000)	1,3818 (0,000)	1,418 (0,000)

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Model1-6	Model2-1	Model2-2	Model2-3	Model2-4	Model2-5
Fixed effects											
Residual Variance	1,152	1,1503	1,1450	1,1454	1,1351	1,1458	0,9128	0,9100	0,8997	0,896	0,9009
N	9376	9376	9367	9362	9360	9376	1581	1581	1581	1578	1581

Note: dependent variable is asset income in logarithmic form; p-values in parentheses;
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

parenthood diminishing log income by 30 percentage points, a large effect. Having more young children also reduces the expected asset income- on average by 17 ppt. for each child (the effect is not significant in the second sample). Conversely, the presence of more working-age adults or retired persons is associated with higher asset income. The magnitude of the impact is a noteworthy 13 ppt. per adult (again the effect is not statistically significant in the second sample). Both country level covariates have the expected signs, but are statistically indistinguishable from zero. One possible explanation consists of economic growth being particularly beneficial for asset accumulation among the poorest.

A significant portion of the variation in asset income (between 37 and 47% depending on the chosen sample) is explained by unmeasured "fixed" household characteristics, as shown by the large random intercept variation at the household level.

6.6.5 INCOME FLOOR EFFECTS ON THE LIKELIHOOD OF HAVING SAVINGS

Finally, Table 8 presents the results of six regressions modelling the effect of social assistance income floors on the capacity to face unexpected expenses. As mentioned, this variable is taken as a proxy for the existence of savings in low-income households. Following the template of previous analyses, two sets of regression coefficients are shown, one for each estimation sample discussed in section VII.1. In the simplest models (1-1 and 2-1), only the maximum benefit a family may be entitled to in the absence of income is included together with random intercepts at the household level and country dummies. In these models, a higher social assistance income floor increases the odds of having savings by around 12 percentage points in the education based estimation sample and about 2 ppt. for every 1000 PPP 2005 Euros in the income based ones. However, the introduction of additional controls changes the direction of the effect in the estimations carried out on the income based sample. A higher income floor slightly reduces the chance of having savings by around 10 ppt. for every 100 PPP 2005 Euros in the most complex specification. The results in the two samples are thus contradictory. Unfortunately, a model in which household disposable income is controlled for in the first sample could not be estimated due to convergence problems. It is thus very possible that income is confounding results at least in the first estimation sample. Results should thus be interpreted with caution. The hypothesis that the availability of an income floor depresses savings can neither be confirmed nor rejected by this analysis.

Household and country characteristics behave as expected. Thus, being a single parent is associated with a strong negative effect on the probability of having savings. Other things equal, single parent households are 60-65% less likely to have savings. Likewise, the presence of each child under seven in a household decreases the likelihood of having savings, albeit the effect is not statistically significant in the second sample. Contradictory results are obtained regarding the impact of older children. In the set of regressions carried out on the education-based sample, having more older children is associated with a lower likelihood of reporting ability to handle .

Table 6.8Social Assistance Income Floor Effects on Having Savings (proxied by the capacity to face unexpected expenses)

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Model2-1	Model2-2	Model2-3	Model2-4
Fixed effects									
Maximum Family Benefit	1,0012 (0,000)	1,0003 (0,028)	1,0003 (0,070)	1,0008 (0,000)	- - -	1,0002 (0,401)	0,9985 (0,000)	0,9986 (0,000)	0,9990 (0,015)
Single parent		0,3460 (0,000)	0,3426 (0,000)	0,4051 (0,000)	- - -		0,3979 (0,000)	0,3952 (0,000)	0,4841 (0,001)
Number of children		0,8736 (0,000)	0,8829 (0,000)	0,8531 (0,000)	- - -		1,2138 (0,000)	1,2064 (0,000)	1,1881 (0,001)
Number of children under 7		0,9100 (0,035)	0,9064 (0,029)	1,3484 (0,000)	- - -		0,9757 (0,776)	0,9734 (0,756)	1,2421 (0,123)
Number of working -age adults		1,4432 (0,000)	1,4465 (0,000)	1,3996 (0,000)	- - -		1,4698 (0,000)	1,4598 (0,000)	1,4296 (0,000)
Number of retired persons (>64)		1,6461 (0,000)	1,6380 (0,000)	1,6997 (0,000)	- - -		2,4815 (0,000)	2,4893 (0,000)	2,4705 (0,000)
Unemployment rate Previous year			0,7590 (0,000)	0,7617 (0,000)	- - -			0,8268 (0,000)	0,8296 (0,000)
GDP/capita Previous year			0,9999 (0,097)	0,9999 (0,091)	- - -			0,9998 (0,000)	0,9998 (0,000)
Max Family Benefit* Single parent				0,9999 (0,137)	- - -				0,9993 (0,275)
Max Family Benefit*				0,9992	-				0,9994

	Model1-1	Model1-2	Model1-3	Model1-4	Model1-5	Model2-1	Model2-2	Model2-3	Model2-4
Fixed effects									
No children<7				(0,000)	-				(0,029)
					-				
Max Family Benefit*				0,9999	-				0,9999
No persons>64				(0,000)	-				(0,794)
					-				
Household disposable income					-				
					-				
					-				
Max Family Benefit* Household income					-				
					-				
Random Intercept (SD) -HH level	7,261 (0,000)	6,893 (0,000)	7,048 (0,000)	6,9832 (0,000)	- -	5,831 (0,000)	5,323 (0,000)	5,376 (0,000)	5,332 (0,000)
					-				
N	84264	84264	84264	83776	-	20384	20384	20384	20302

Note: coefficients represent odds ratios; p-values in parentheses

Source: Own calculations based on the 2007 EU-SILC longitudinal database

unexpected expenses. On the contrary, in the income based sample, having more older children is associated with a statistically significant higher probability of having savings. Presumably, the discrepancy is due to the much more disadvantaged nature of the second sample. Among the poor, households with older children are somewhat better positioned. Both the number of working-age adults and the number of retired persons is positively related to the odds of having savings. The magnitude of the coefficients is large and above the significance threshold in both samples. Each additional working-age adults boosts the likelihood of having savings by between 30 and 50% depending on specification. The effect of retired adults is even higher, i.e. an increase by between 65 and 140% depending on the model.

The coefficients of the two country level covariates behave in conflicting ways. The lagged unemployment rate has the predicted sign and a very large and statistically different from zero magnitude. A 1 percentage point increase in the lagged unemployment rate depresses the odds of having savings by between 25 and 18 percentage points depending on specification and estimation sample. On the contrary, the coefficient of the GDP per capita has the wrong sign and passes the threshold for statistical significance only in the second sample. Other things equal, a 1 percentage point increase in the GDP/capita reduces the likelihood of having savings by, on average, 0.02 ppt. [213]. Lastly, countries differ in their share of the population declaring ability to meet financial expenses. Slovenia and Estonia are the countries with the highest proportions of households declaring savings whereas Hungary, Lithuania and Latvia are the countries where these proportions are lowest.

6.6.6 DISCUSSION

The impact of the income floor implicit in social assistance programs has been estimated for four types of assets, namely consumer durables, arrears, income generating assets and savings. In the latter two cases, lack of adequate data has compelled the use of proxies. Where the dependent variable has taken a binary rather than continuous form, computational complexities have prevented the estimation of more intricate models. Findings have generally been consistent across samples and model specifications.

An overview of the results points to both similarities and discrepancies in the impact of income floors across the four types of assets. Generally, compared to previous findings based on the American public assistance program, evidence of a negative income floor effect on asset-accumulation in the present in means-tested social assistance is more mixed. Only the accumulation of arrears could be shown to be adversely impacted by the presence of an income floor in means-tested social assistance. It is possible that the insurance mechanism implicit in an income floor promotes riskier behaviour among the very poor, thus ultimately increasing the chance of accumulating arrears. In the case of consumer durables, evidence points towards a

[213] It is not clear what is causing this effect. It is possible that very poor families are more likely to switch to consumption instead of savings in countries/ periods where/when the economic development level is higher.

small positive impact of higher guaranteed benefits, with a somewhat weaker effect for households containing young children and/or retired persons. The result is consistent with treating consumer durables as consumption items rather than assets. Finally, the effects of the social assistance income floor on income generating assets or savings are ambiguous. Only in the case of the amount of asset incomes did all specifications show the predicted negative effect. Even in this case, coefficients in some of the estimations while statistically significant were relatively small in magnitude.

Overall, the depressing effect of income floors on asset accumulation appears to be rather limited in Central and East European countries. Several explanations are possible. First, the level of the income floor in the region may be too low to depress asset accumulation. Indeed, many countries make only paltry support available well below what would be needed to overcome poverty (see Chapters 3 and 4). Second, specificities of the region may be partially responsible for the findings. Indeed, CEE countries have only recently built the capital and insurance markets that are typically used in asset accumulation processes in developed countries. Additionally, the period considered in the analysis has been one of rapid economic growth across the region, possibly facilitating asset accumulation and investment. Third, given the relative novelty of means-tested assistance in the region, as well as possible lack of trust in state institutions (Mishler and Rose 2001; Sissenich 2007), it is possible that social assistance programs are not trusted to provide an income floor when needed. Low-income households may either fear program cutbacks/elimination in the future or not trust the program administration to provide them with a benefit when they become eligible. Fourth, general non-monetary costs of program participation, such as stigma, may deter from relying on social assistance for insurance purposes. Finally, results may be partly explained by shortcomings of the data. Measures of wealth possessions are crude and cross-temporal variation in the income floor minimal. As such, policy effects may not be well identified, due to measurement issues, low power and possible confounding factors, especially at the country level.

6.7 Asset Tests and the Accumulation of Assets

The previous section has focused on whether and how asset accumulation processes among low-income households are affected by cash benefits made available by the existence of a guaranteed minimum income. Another modality through which means-tested programs may discourage asset ownership and saving among the poor and the near-poor is by directly prohibiting program participation when a claimant's assets surpass a given threshold[214]. The presence of asset tests would both force future recipients to run down their assets in case of

[214] The threshold may be effectively set to zero. In this case, no assets may be allowed for program clients.

adverse economic circumstances, and more importantly, would discourage accumulation of assets in the first place among all low-income households.

The following subsections discuss the association between asset test and three types of assets, namely consumer durables, income generating assets and savings[215]. Before presenting any results, it should be noted that serious data limitations prevent the drawing of any firm conclusions. First, the data on asset tests is sparse and relative. To some extent, this is due to the program design itself. National legislation is either very vague about how an asset test should be implemented (i.e. which assets should be included and which disregarded, how are assets to be valued if disregards are permitted etc.), or leaves asset test implementation to the discretion of local authorities and/or street-level social workers. The situation is unsurprising given the complexities that an asset test may entail. Second, there is precious little differentiation in asset tests due to the fact that they only vary across countries. As such, there is very little variation from which to identify asset test effects. Third, there is little information about how asset tests are being implemented. Even if national legislation prohibits the possession of assets for program participants or allows for certain disregards, local discretion may override or modify those provisions.

Notwithstanding these shortcomings, an initial assessment of the relationship between asset tests and assets is possible. Two asset test variables have been used, namely the existence of an asset test and when such an asset exists whether any disregards larger than 1000 Euros are allowed. Both are coded 0/1. The two variables are however highly correlated since most countries that do have an asset test, also allow for a disregard. In the case of Hungary, local authorities have ample leeway to decide whether and what types of disregards they allow. Initially, Hungary has been coded 1 on the asset disregard variable. Subsequently, the coding has been change to zero and the analyses repeated. As findings did not change substantially, only the initial results are presented. The estimation strategy follows a sequence of steps. Initially, simple correlations adjusted for clustering in the data are presented (Model 1-1 and 2-1). Subsequently, additional variables are added using a simple regression framework (but always adjusting for clustering in the data). In principle, asset tests apply in the same manner for all households, and are therefore invariant to household characteristics. However, as the national demographic composition might affect program design and the level and distribution of asset holdings, three household characteristics are also added as controls (single parenthood, number of children, and number of retired persons). The approach has the advantage that it implicitly controls for variations in street-level implementation of the asset test eligibility that depends on whether the household is perceived to be needier or more 'deserving'. On top, the maximum family entitlement, the lagged unemployment rate and the lagged GDP/capita have been added as covariates. Finally, results pertaining to a three level hierarchical model similar to the ones introduced in the previous section are presented (Models 1-5 and 2-5). As previously, estimations

[215] Arrears have not been modeled since asset test do not take into account debt.

have been carried out on two separate samples of low-income households, defined based on education and income respectively.

6.7.1 ASSET TESTS AND THE POSSESSION OF CONSUMER DURABLES

Results of the analysis of asset tests' influence on the possession of consumer durables are detailed in Table 9 below. All specifications show a negative effect that is relatively large (around a third of a standard deviation) but that fails to achieve statistical significance. Contrary to expectations, the existence of an asset disregard would appear to further lower consumer durable accumulation. However, the coefficient is statistically indistinguishable from zero. Comparing the results across samples, the size of the effect is somewhat lower in the poorer sample. The finding is consistent with the idea of asset tests being less binding for the very poor. However, in all four models, both asset test variables show up as statistically not different from zero. Consistent with the results presented in the previous section, the coefficient of the maximum family benefit variable is positive and statistically different from zero.

6.7.2 ASSET TESTS AND THE POSSESSION OF INCOME GENERATING ASSETS

The relationship between the existence of an asset test and having non-zero asset income is spelled out in Table 10. The unconditional correlation between the two is negative but statistically indistinguishable from zero in both samples. Nonetheless, as the specification gradually becomes more complex, incorporating additional controls and better modelling, the association becomes more negative and passes the significance threshold. Thus, when the full set of control variables is present, both the simple logit and the multilevel models (Models 1-4, 2-4, 1-5 & 2-5) show a large and significant negative coefficient. The presence of an asset test reduces the odds of having asset generated income by between 35 and 95%, depending on sample and specification. Admittedly, the magnitude of the effect is surprisingly large, suggesting potential bias.

Table 6.9 Asset test and the accumulation of consumer durables

	Model 1-1	Model 1-2	Model1-3	Model 1-4	Model 1-5	Model 2-1	Model 2-2	Model 2-3	Model 2-4	Model 2-5
Asset test (0/1)	-0,1085	-0,0382	-0,2407	-0,1222	-0,1205	0,1354	0,3783	-0,1822	-0,1118	-0,0632
	(0,330)	(0,647)	(0,166)	(0,299)	(0,477)	(0,343)	(0,000)	(0,240)	(0,294)	(0,771)
Asset disregard (0/1)		-0,1160					-0,407			
		(0,303)					(0,012)			
Single parent			-0,2456	-0,2673	-0,1267			-0,1001	-0,1148	0,0473
			(0,004)	(0,001)	(0,000)			(0,129)	(0,101)	(0,212)
No children			0,3181	0,2786	0,3000			0,3457	0,3044	0,2866
			(0,000)	(0,000)	(0,000)			(0,000)	(0,000)	(0,000)
No adult			0,5316	0,4831	0,4828			0,4913	0,4480	0,4184
			(0,000)	(0,000)	(0,000)			(0,000)	(0,000)	(0,000)
No retired			-0,0181	-0,0604	0,0055			0,0757	0,0374	0,0970
			(0,745)	(0,287)	(0,645)			(0,464)	(0,707)	(0,000)
Max Family Benefit				7E-04	4E-04				7,5E-04	5,4E-04
				(0,029)	(0,000)				(0,065)	(0,000)
Unemployment rate				-0,0173	0,0266				-0,0084	0,0265
				(0,159)	(0,000)				(0,523)	(0,000)
GDP/capita				-6E-05	-1,3 E-05				-4E-05	-7E-05
				(0,008)	(0,004)				(0,161)	(0,000)
Random Intercept					0,2307					0,2927
Country level					(0,000)					(0,000)
Random Intercept					1,225					1,2632
HH level					(0,000)					(0,000)

N	84380	84380	84380	84368	84368	20403	20403	20403	20403	20403

Note: p-values in parentheses.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Table 6.10 Asset tests and possession of income generating assets

	Model 1-1	Model 1-2	Model1-3	Model 1-4	Model 1-5	Model 2-1	Model 2-2	Model 2-3	Model 2-4	Model 2-5
Asset test (0/1)	0,6183	0,0956	0,5684	0,2621	0,3154	0,5826	0,0784	0,5459	0,2556	0,0643
	(0,572)	(0,000)	(0,488)	(0,002)	(0,000)	(0,521)	(0,001)	(0,455)	(0,002)	(0,031)
Asset disregard (0/1)		10,561					12,225			
		(0,002)					(0,000)			
Single parent			0,7174	0,8563	0,7063			0,8488	0,9840	0,7963
			(0,000)	(0,018)	(0,001)			(0,275)	(0,838)	(0,298)
No children			0,9109	1,0398	0,8136			0,9270	1,0844	0,9280
			(0,026)	(0,574)	(0,000)			(0,099)	(0,213)	(0,431)
No adult			1,3303	1,3223	1,1282			1,2369	1,3103	1,2659
			(0,000)	(0,004)	(0,011)			(0,001)	(0,000)	(0,022)
No retired			1,2785	1,3028	1,0537			1,6116	1,5427	1,6825
			(0,026)	(0,065)	(0,432)			(0,001)	(0,007)	(0,000)
Max Family Benefit				0,9992	1,0015				0,9991	1,0004
				(0,302)	(0,000)				(0,121)	(0,599)
Unemployment rate				0,9681	0,6210				0,9483	0,6242
				(0,407)	(0,000)				(0,231)	(0,000)
GDP/capita				1,0003	1,0002				1,0004	1,0003

				(0,000)	(0,000)				(0,000)	(0,000)
Random Intercept					3,096					2,953
Country level					(0,000)					(0,000)
Random Intercept					11,436					10,706
HH level					(0,000)					(0,000)
N	84382	84382	84382	84370	84370	20403	20403	20403	20403	20403

Note: coefficients are odds ratios; p-values in parentheses
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Introducing both asset test dummies yields the expected pattern whereby asset test have a negative impact while disregards reduce that effect. However, strong collinearity makes results unusable as pointed out by the unrealistically large coefficients. Confirming findings in section VII.4, the program income floor exerts a significant positive influence, raising the likelihood of possessing income generating assets.

6.7.3 ASSET TESTS AND SAVINGS

The last set of models investigates the links between asset test and the likelihood of having savings (proxied by the capacity to face unexpected expenses). Findings are shown in Table 11. Simple correlations, logit regressions and three-level logit analyses add up to a consistent picture. The presence of an asset test is negatively associated with the likelihood of having liquid assets. The asset test coefficient is always large and statistically significant. On average, living in a country with a social assistance program that implements an asset test reduces the likelihood of having savings by around 50-65%. The two samples produce relatively similar sets of coefficients.

Models 1-2 & 2-2 that contain both the asset test and the asset disregard dummies show the predicted pattern. However, the asset test disregard coefficient, albeit large, is statistically zero. Again, serious colinearity issues prevent a firm interpretation of results. Finally, while significant only in the models using the smaller income based samples, the program income floor has a negative impact on the likelihood of having savings.

6.7.4 DISCUSSION

While lack of variation prevents a proper identification of asset tests effects, a prima facie inspection of the relationship between asset tests and asset accumulation yields some interesting results. Generally, both samples yield similar results despite being of very different sizes[216]. The presence of asset tests is negatively related with two asset variables, namely the probability of having asset generated income, and the probability of having financial savings. The asset test coefficients are statistically insignificant in all specifications modelling possession of consumer durables. An insignificant effect is to be expected given that consumer durables usually lie outside the scope of social assistance asset tests.

[216] However, the magnitude of the coefficients differs somewhat across samples.

Table 6.11 Asset tests and the likelihood of having savings

	Model 1-1	Model 1-2	Model1-3	Model 1-4	Model 1-5[217]	Model 2-1	Model 2-2	Model 2-3	Model 2-4	Model 2-5
Asset test (0/1)	0,4707	0,4107	0,4335	0,3952	-	0,3909	0,2900	0,3582	0,3091	0,02570
	(0,003)	(0,000)	(0,001)	(0,000)	-	(0,015)	(0,000)	(0,008)	(0,000)	(0,042)
Asset disregard (0/1)		1,2489			-		1,6060			
		(0,409)			-		(0,177)			
Single parent			0,5195	0,5394	-			0,5522	0,5682	0,3941
			(0,000)	(0,000)	-			(0,000)	(0,000)	(0,000)
No children			0,9200	0,9750	-			1,0416	1,1951	1,1947
			(0,007)	(0,624)	-			(0,238)	(0,000)	(0,000)
No adult			1,2791	1,3230	-			1,2313	1,4072	1,4532
			(0,000)	(0,005)	-			(0,000)	(0,000)	(0,000)
No retired			1,3821	1,4321	-			1,7768	1,9192	2,4762
			(0,000)	(0,000)	-			(0,000)	(0,000)	(0,000)
Max Family Benefit				0,9993	-				0,9982	0,9987
				(0,256)	-				(0,000)	(0,000)
Unemployment rate				0,9887	-				0,9609	0,8370
				(0,620)	-				(0,085)	(0,000)
GDP/capita				1,0001	-				1,0001	0,9998
				(0,001)	-				(0,001)	(0,000)
Random Intercept					-					1,5746
Country level					-					(0,000)
Random Intercept					-					5,3891

[217] Model could not be estimated due to lack of convergence.

HH level					-					(0,000)
N	84276	84276	84276	84264	-	20384	20384	20384	20384	20384

Note: Coefficients represent odds ratios; p-values in parentheses.
The model corresponding to 2-5 using the first sample could not be estimated due to lack of convergence.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Summing up, findings are overall consistent with the hypothesis that asset tests tend to depress asset accumulation among low-income households. In particular, there is strong preliminary evidence that asset tests may discourage the build-up of savings and the build-up of income generating assets among potentially eligible households. This is exactly what standard welfare economics predicts. Due to their liquid and visible nature, savings should be most affected by the presence of asset tests in the eligibility conditions of social assistance transfers. Obviously, a proper test relying on enough variation to reliably identify policy effects is needed before any firm conclusions can be drawn.

6.8 CONCLUSIONS

This chapter has set out to examine the possible interrelations between the design of social assistance programs and asset accumulation among low income households. To carry out the analyses, use has been made of the EU-SILC 2007 longitudinal dataset. To separate the low-income population from the rest, two criteria have been used, i.e. education and income across a three year period. Mirroring the structure of the data, three level modes have been constructed. The relatively complex estimation strategy has allowed for some advantages but has also led to lack of convergence for some specifications (chiefly models containing a binary dependent variable, as well as more complex features such as interactions or random slopes). As a result, not all models could be estimated.

Two distinct but interrelated features of social assistance programs have been analyzed, the generosity of the income floor implicit in the program on the one hand, and the presence of asset-tested entitlement on the other hand. Since a good measure of net worth was not available in the data, several types of assets have been analyzed separately, namely consumer durables, accumulated arrears, income generating assets and savings (proxied by the capacity to face unexpected expenses).

The hypothesised negative effect of a higher income floor on asset accumulation could only be corroborated for debt accumulation and the amount of asset income. On the contrary, the availability of a more generous guaranteed minimum income is likely to facilitate the accumulation of consumer durables. As for the likelihood of owning income generating assets and savings, results were inconclusive.

Albeit data deficiencies allowed only for very tentative results, the hypotheses regarding the effect of asset tests have largely been confirmed. Especially in the case of savings and income generating assets, there are clear indications that an asset test may have a depressing effect. Unfortunately, only a very raw indicator of asset testing could be constructed. Ideally, a more refined measure of asset testing (incorporating asset disregards) should be used to gain insights into the process through which asset tested eligibility affects asset accumulation among low-income households.

To the author's knowledge no other study has attempted to measure the effects of social assistance design on asset accumulation among the poor and near poor in Central and Eastern Europe. As such, no previous results to serve as a point of reference exist. However, a comparison is possible with findings related to the American federal public assistance program (AFDC, and later TANF). This study's findings are partly convergent and partly divergent with the evidence on AFDC/TANF. On the one hand, the negative effect of asset tests on asset accumulation in general and savings in particular is consistent with the negative effect of asset limits found in both AFDC and TANF (Powers 1998; Sullivan 2006; Nam 2008). On the other hand, evidence that a more generous income floor depresses asset accumulation is more limited. Moreover, a higher income floor was found to be beneficial, at least for some types of assets. In interpreting these results, several things should be kept in mind. Differences in data (the asset measure) and identification methods may be responsible for the different results. However, the discrepancy may also be attributable to substantive differences between the CEE region and the US. First of all, the overall design of the two social assistance programs is very different[218], and other program features may interact with the benefit level to determine the impact on asset accumulation processes. Second, there may be nonlinearities in the relationship between the level of the income floor and asset accumulation. More specifically, the level of guaranteed income provided by social assistance in Central and Eastern Europe may too low to discourage asset building. It may be argued that any harmful effects on precautionary saving kick-in only after a certain standard of living is assured by the program. Third, the population served by the CEE and the US programs is only partially overlapping[219] Differences in the characteristics of potential clients are likely to play a role in determining the impact of the program. Fourth, the fact that Central East European countries are (in the period under study) both less affluent and more likely to experience steeper economic growth may counteract saving disincentives stemming from the social assistance program.

To conclude, albeit there is some support for the hypothesis that social assistance programs in Central and Eastern Europe are detrimental to asset accumulation among the poor and the near-poor, results are far from conclusive and much weaker than those obtained using US data. Rather than depress precautionary saving, higher transfers may help recipient households to amass consumer durables, albeit it may also encourage them to take on unsustainable levels of debt and reduce their asset income. The inclusion of asset tests in program eligibility conditions may adversely affect saving behaviour in low income households.

[218] For example, TANF is not a guaranteed entitlement.
[219] For example the US program is largely restricted to single mothers.

7 SOCIAL ASSISTANCE IN CENTRAL AND EASTERN EUROPE: SOME CONCLUSIONS

7.1 ISSUES AND SCOPE

Set up in the early 1990's, means-tested public support programs in Central and Eastern Europe represent an interesting case of institutional development. On the one hand, the use of targeting in general and that of income-testing in particular in social transfer programs, has been widely encouraged by the World Bank and other international actors giving advice or 'technical assistance'(Wedel 1998) to Central and East European governments (Sipos 1994; The World Bank 2001; The World Bank 2002; Fox 2003; The World Bank 2004; Ringold, Kasek et al. 2007). Income testing and means-testing were supported as the best way to channel scarce resources to the 'truly' poor while dismantling an 'overdeveloped' welfare state that was said to be a drag on economic growth. On the other hand, social assistance transfers are complex and administratively demanding programs that may bring about unwanted side-effects, a fact readily acknowledged even by supporters of means-testing. The challenges of running a successful social assistance transfer program were all the more striking given the peculiarities of the Central and East European context. With the exception of Hungary, no previous experience with income/means testing was available to build on. Given the particularities of the command economy and the official work-centred ideology, poor relief was deemed unnecessary (see Chapter 2). Program implementation was likely to be further hampered by a weak state administrative capacity (compared to Western standards), as well as by significant levels of informal economic activity(Johnson, Kaufmann et al. 1997). Beyond implementation issues, means-tested benefits are controversial for the potential work disincentives they may induce among low-income earners. Once more, the particularities of the region during the 1990s were expected to aggravate the work disincentive problem. More specifically, a relatively compressed distribution of wages and earnings together with relatively low living standards prevented the establishing of a benefit large enough to protect against poverty without simultaneously affecting the cost of working for a significant share of the population. Thus, paradoxically, means-tested programs were hailed as the solution to reconciling cuts in social protection with protecting the poor, while their viability in Central and Eastern Europe was questioned. Despite the controversy, very little is known about how means-tested income support programs in Central and Eastern Europe work, or what are the outcomes they bring about. The previous chapters have aimed at contributing to filling this gap.

On a theoretical level, the interest of this study has been more general, namely to examine the way means-tested income support transfers affect the distribution of economic resources at the bottom of the income distribution , as well as to investigate linkages between

program design and outcomes, using Central and Eastern Europe as a case study. Evaluations of social assistance programs have tended to be both holistic (the program as a whole is evaluated) and narrow (a single program/ country is assessed). In the regime typology tradition, some studies have looked at whether social assistance or other transfer policy in Central and Eastern Europe amount to a different regime (Bahle 2005; Kogan, Gebel et al. 2008; Cerami 2009)This study has taken a different approach in that it used cross-national variation in program characteristics to identify patterns of association with various program outcomes. To that end, two interrelated questions have been addressed. On the one hand, an effort has been made to describe means-tested income support programs in a thorough and systematic way, so as to capture meaningful dimensions of variation and to allow for comparability. On the other hand, several analyses have been carried out so as to look into 'program performance', from several perspectives.

The main data source used throughout the study is the 2007 longitudinal component of the European Union-Survey of Income and Living Condition (EU-SILC). In addition to the EU-SILC, several other sources have been drawn upon, especially in order to gather information about program characteristics. Of these, the most important one is the Mutual Information System on Social Protection (MISSOC). Other data sources are documented in the chapters where they have been used. The selection of countries included in the study has been based partly on theoretical, partly on data availability considerations. On the theoretical side, a variant of 'most similar case' design was followed. To ensure enough commonalities between the cases, the geographical scope of the study has been restricted so as to include countries that fulfilled simultaneously two conditions, i.e. they had been a member of the former communist bloc, and they have since 1990's experienced a process of "(re)westernization" leading up to EU membership. The application of these two criteria ensured that the social and economic structures both before and after 1990 were sufficiently similar to make comparisons feasible. On the data side, only countries that had been included in the EU-SILC 2007 longitudinal component could be retained[220]. Overall, eight countries are included in the study, i.e. Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia and the Slovak Republic[221].

Several programs aimed at providing transfers to the low-income population may exist in any one of the eight countries mentioned above. In defining social assistance[222] for the purposes of this research, only one type of program is taken into account, namely income-tested benefits

[220] Romania and Bulgaria had to be dropped due to data availability issues.

[221] At the same time, it should be noted that substantial differentiations do exist among these countries in terms of living standards, inequality and relative poverty, demographic characteristics and economic and social institutions.

[222] Social assistance, public assistance, means-tested income support, and minimum guaranteed income have been used interchangeably.

aimed at the general population. Thus, any special safety nets provided to special categories, such as for example the elderly or the disabled, are excluded[223].

7.2 MAIN FINDINGS

Chapter 2 sets the background for the remaining ones by giving an account of the inherited patterns of inequality from the communist era and of economic vulnerability both before and after the regime change. It highlights the fact that, contrary to official ideology and to conventional wisdom, communist societies were much less equalitarian than claimed. The evolution of wage inequality followed a cyclical pattern whereby previous equalization trends were reversed so as to accommodate labour allocation targets. The presence of considerable inequalities was even more striking when looking beyond wages, at consumption patterns. Unlike the Western welfare state, public, non-market channels of allocation worked to reinforce rather than diminish wage inequalities. In fact, preferential access to desirable goods and services (such as housing, subsidized holidays, cars, access to special shops etc) was often used as a wage supplement. Collective farmers, unskilled workers, workers in services and other 'non-productive' sectors, the disabled, and the Roma had lower economic resources than the general population.

Communist patterns of disadvantage continued after the regime change albeit in slightly different forms. Farmers, rural resident, the Roma, the low educated, large families experienced a higher risk of unemployment, underemployment, irregular employment, or low-paid employment, and thus a higher risk of poverty. These categories remained economically vulnerable after the economy had returned to growth in the late 1990s. As such, they were the most likely to necessitate public support in the form of means-tested benefits. Interestingly enough, despite the communist past and despite the period of economic turmoil termed 'economic transition', the characteristics of the poor in Central and Eastern Europe are currently remarkably similar to those in the Western half of the continent.

The history of social assistance programs in Central and Eastern Europe is reviewed in chapter 3. A peculiarity of Central and Eastern Europe is the lack of experience with poverty relief. During the five decades of communist rule, social protection was achieved through integration into production, not outside it. As a result, no comprehensive public program to address economic hardship existed. Instead, whatever public support was made available for the

[223] The data format prevents a more encompassing definition of social assistance; means-tested benefits for the disabled, elderly, families with children etc. are aggregated under old-age, disability, family etc. benefits rather than with social exclusion.

poor was highly discretionary, centred on social work and stigmatizing. More importantly, benefits were highly fragmented, duplicative, and opaque. After some policy experimentation, all of the eight countries included in this study have established classic general guaranteed minimum income schemes. However, the legacy of fragmentation and duplication has endured in the form of special categorical programs being maintained alongside the universal one.

The bulk of the chapter is devoted to a detailed description of program features in the first half of the 2000s. Five program characteristics are examined, i.e. expenditure, entitlement rules, benefit levels, centralization of administration, and the provision of additional services. Aggregate expenditure on general means-tested benefits has been low throughout the region, both in absolute and in relative terms, although somewhat higher in Slovenia and the Czech and Slovak Republics. In addition, expenditure levels have fallen between 2003 and 2007. The downward trend is particularly visible in the higher spending countries.

Mirroring expenditure levels, benefits are equally low. Amounts are often based on budgetary considerations rather than on actual needs, while inflation has often been used as a mechanism to 'de facto' cut benefit levels. Nevertheless, benefits for large families can exceed the statutory minimum wage. In some cases, more generous support is made available for 'deserving' categories such as the disabled or lone parents.

Access to the benefits is granted after passing two or three tests. The 'stingier' programs such as the Polish or Latvian impose, in addition to an income and a work test, an asset test. All countries require able bodied unemployed to seek work. However, the strictness with which these work tests are implemented probably varies. Finally, countries differ in the way they define the most important screening device governing access to the benefits, i.e. the income tests. By disregarding certain types of incomes partially or totally, the effective marginal tax rates[224] are changed. However, most countries focus disregards[225] on certain social protection benefits such as disability or child allowances. Only the Slovak Republic and to a lesser extent Latvia have effective marginal taxes on earnings below 100%.

None of the eight countries has a social assistance program that is completely decentralized. At a minimum, a general benefit level is set nationally, albeit its payment is not fully guaranteed everywhere. Having noted that, the most centralized scheme is found in Slovenia. The Czech and the Slovak Republics also have relatively more centralized programs. Lastly, receipt of social assistance benefits automatically grants access to health benefits where these benefits are not already universal. Some countries explicitly take into account housing when establishing benefits. Yet, nowhere are these benefit components large enough to fully cover housing costs.

[224] The effective marginal tax rate is defined as the percentage of an increase in earnings that the earner keeps after all applicable taxes are deducted and declines in benefit entitlements are accounted for.

[225] An income disregard is present when income from a given source is not taken into account (wholly or partially) for purposes of the means-test. See Chapters 3 and 5 for details on what income disregards exist in the social assistance schemes of the eight countries included in the study.

Important cross-national differentiation exists on all five dimensions. The number of countries is too small to allow for a thorough investigation of variation in program dimensions. However, a few patterns are worth noting. Countries having larger benefits also have more permissive entitlement rules, make available additional services such as health-care or housing, and spend larger fractions of their GDP on this type of programs[226]. These are also the countries with the lower relative poverty rates suggesting that generous income support for the poor might be unfeasible if poverty is too widespread. Social assistance design may also be influenced by the size of the state's redistributive effort. Thus, countries with more inclusive social insurance schemes (Inglot 2007) also tend to have more generous universal poverty relief and fewer categorical means-tested benefits. On a different note, previous poor relief experiences may impact on the blueprint of the current social assistance program. Building on the case of Hungary, it may be hypothesized that a tradition of local charities favours the development of a decentralized support for the poor.

The first analytic chapter is Chapter 4. Using pre post transfer comparisons, it examines program extensiveness, effectiveness, and efficiency. On extensiveness, social assistance programs are a marginal component of the social protection system in all eight countries. They serve small populations, spend relatively little compared to needs and the benefits they award are largely a top-up for their clients. Beyond this general pattern, considerable cross-country variation exists. Two clusters of countries are visible, i.e. countries where both the number of recipients and average benefits tended to be higher (the Czech Republic, Slovenia, and the Slovak Republic) and countries where both were severely restricted (the three Baltic States). On effectiveness, the contribution of social assistance programs to poverty reduction/alleviation is severely circumscribed. Both the ability of the programs to reach the poor and, the ability to provide them with sufficient resources to bring them above the relative poverty threshold are found lacking. Even the most successful programs fail to lift out of poverty more than a fifth of the poor[227]. The general low effectiveness notwithstanding, substantive cross-national differentiation does emerge. Using pre-post transfer comparisons, the more extensive and accessible programs achieved higher effectiveness in reducing poverty, a result that held both cross-nationally and over time. Moreover, more extensive and liberal programs directed a greater share of their resources to the very poor. On efficiency, all countries have been found to 'waste' a large share of their program resources mainly by directing payments to the non-poor but also by awarding benefits to the poor in excess of their shortfall from the poverty line.

Two issues are worth noting from a theoretical perspective. First, contrary to some theoretical expectations, no negative link was found between generosity and efficiency. Quite the opposite, programs that made available only very low benefits, transferred a larger share of these benefits to households that were not poor before transfer. This finding calls into question the utility and viability of using low benefits in combination with program application costs as a self-

[226] This pattern remains true even after the more the spending cuts implemented between 2003 & 2007.
[227] The poor being defined using the more conservative 50% median equivalised income line.

targeting mechanism. More generally, the assumption that the opportunity cost of claiming the benefit is smaller for the poor than for the non-poor appears misguided. In fact, the non-poor may have more resources, such as time, available to invest in claiming a benefit[228]. Thus, using low benefits as a self-targeting mechanism is both failing to provide support for those households that are vulnerable and relatively wasteful. At a more general level, findings suggest that shortcuts taken to diminish the administrative burden of measuring a household's economic resources may turn out to be counterproductive to the program's goals and that there are no easy solutions to the administrative costliness of means-testing.

Second, there is something to be said about decentralization and discretion. In a study of the social assistance administration in the US, Germany and Sweden, Jewell (2007) finds that German and Swedish front-line workers use their discretionary authority to provide extra support for some households who would not receive it under ordinary circumstances. A different pattern is observed in Central and Eastern Europe. Decentralization and discretion are often used to ration insufficient resources. Moreover, discretion is linked to very poor targeting performance, suggesting arbitrariness in entitlement and spending decisions. The contrasting patterns of Central and Eastern Europe on the one hand and Germany/Sweden on the other hand may be explained by lack of administrative capacity in the former. More specifically, in a context where a tradition of professionalization/ civil service to draw on when making decisions is lacking, discretion is likely to lead to inconsistencies in the application of the program rules, as well as a general incapacity to channel resources to the most needy.

Finally, pre- post- transfer comparisons have been carried out not only for the entire population, but also separately for six family types. Results were generally aligned with those obtained for the general population. Nonetheless, slight differences across family types did emerge. Social assistance programs were more likely to shelter against income deprivation when households contained children or pensioners. In contrast, they were less likely to offer (generous) support to single working-age adults. These findings are consistent with programs differentiating, explicitly or implicitly, between various groups and treating those seen as more 'deserving' on more favourable terms. Households with children are particularly likely to be better protected in the Czech Republic, Slovenia and the Slovak Republic, i.e. the countries with the most effective social assistance programs.

Social assistance outcomes are examined from a different perspective in chapter 5. Using dynamic panel modelling, the chapter focuses on the longer-term program impact on recipient households' income. Although social assistance programs are meant to provide only temporary support and to improve their clients' long term economic self-sufficiency, work disincentives are a well known problem associated with means-testing. By potentially discouraging recipients to

[228] This argument has been made in a different form about using work requirements to screen-out the non-poor, in developing countries; in fact, often poor households were more time constrained than non-poor households and thus less able to take advantage of work-tested programs Ravallion, M. and G. Datt (1995). Is Targeting through a Work Requirement Efficient? Some Evidence for Rural India. Public Spending and the Poor. Theory and Evidence. D. Van de Walle and K. Nead. Baltimore, John Hopkins University Press: 413-444.

increase their earnings, social assistance programs may be in fact self-defeating[229]. To assess the extent to which social assistance schemes in Central and Eastern Europe discourage economic self-sufficiency, the analyses in chapter 5 compare the income changes of recipients and non-recipients through time. To partly account for self-selection into the program mechanisms, eligibility to receive benefits is modelled. Finally, earnings, labour income, other social protection income, and total household disposable incomes are analyzed separately.

Confirming patterns found in Chapter 4, social assistance programs in the Czech Republic, Slovenia, and the Slovak Republic were more able to identify and reach eligible households compared to Latvia, Hungary, and Poland.

No clear evidence of a negative effect of social assistance programs on future earnings could be discerned. Albeit social assistance clients tended to have lower earnings growth compared to non-recipient low-income households in some countries, the result was far from universal. Moreover, even where a negative effect has been found, it often could not be confirmed across households or samples. More importantly, households receiving relatively larger benefits could not be shown to experience slower earnings growth compared to households receiving less. More consistent results have been obtained for labour income. As a general pattern, households that have received social assistance benefits have lower labour income in subsequent years. Over and above program participation, only eligible households appear to diminish their labour income in response to higher benefits. Partly reflecting a drop in labour income, total disposable household income is moderately negatively affected by participation in a social assistance program. Nevertheless, results gave no indication that more generous social assistance benefits depress future household disposable income.

Overall, results proved to be very sensitive to specification details and thus inconclusive. However, a few points are worth noting. First, any work disincentives that the programs might create could not be linked to the benefits they provide. Instead, lower future incomes appear to be related to program participation as such rather than disbursed benefits. Second, while labour supply may be negatively affected by program participation both at the extensive and at the intensive margins, cross-national variation patterns differ. At the intensive margin, all countries exhibit relatively similar small to moderate impacts. On the contrary, more differentiation across countries exists on disincentives at the extensive margin. Third, program outcomes could not be unambiguously mapped onto program characteristics. In particular, both more liberal and more generous programs and stingy, harsh means-testing ones could produce less negative outcomes. However, in the latter case, the lack of negative outcomes may be due more to the programs being irrelevant rather than beneficial.

[229] This argument has had wide currency especially among neo-conservative; see Murray, C. A. (1984). Losing gound: American social policy, 1950-1980. New York, Basic Books. for a prominent example; for a rebuttal using the American case, see Emory Burton, C. (1992). The Poverty Debate. Politics and the Poor in America. Westport, Greenwood Press, Handler, J. F. and Y. Hasenfeld (2007). Blame welfare, ignore poverty and inequality. New York, Cambridge University Press.

The last analytic chapter is chapter 6. It turns on a different type of economic resources, namely assets. Very little is known about household saving behaviour in Central and Eastern Europe beyond a general agreement that the existent level of savings is relatively low and that capital markets are only now being developed (Stark and Bruszt 1998; Hanley 1999; Fultz and Ruck 2001; Hausner 2001). Even less is known about the possible interactions between saving and social transfer programs. Given the scarcity of information, hypotheses have been derived based on the American literature on AFDC/TANF. Two possible mechanisms linking means-tested minimum guaranteed income programs and assets have been examined. First, by design, transfer programs of the minimum guaranteed income type create an income floor below which nobody should fall. In turn, the existence of an income floor may discourage precautionary saving, at least for households that have a long-term income close to the guaranteed income floor. Second, the presence of an asset test in the process of determining entitlement potentially amounts to an additional disincentive to save for low-income households as any assets that have been accumulated will need to be run down before any benefits can be granted.

A series of data limitations preclude a proper testing of the second mechanism. More specifically, lack of accurate information on the specificities of asset test implementation, as well as the lack of variation in the asset-test variable resulting from the (very) small number of countries do not allow for a proper identification of asset test effects. Instead, results should be interpreted as associations/ correlations. Another data shortcoming comes from absence of encompassing asset measures, particularly measures of financial assets and net worth, in the EU-SILC. Consequently, four partial asset indicators have been constructed using the available data, namely a consumer durables index, a debt accumulation index, asset income, and the ability to face unexpected expenses (used as a proxy for having savings).

A higher income floor has been found to favour rather than hamper the accumulation of consumer durables. The effect is heterogeneous across groups. In particular, single parents, households with children, households containing retired persons, and higher-income households are less affected. Moreover, the link between a higher income floor and the accumulation of consumer durables appears to be stronger in the Baltic countries and weaker in the richer countries (Czech Republic, Slovenia, and Hungary).

Debt accumulation has been shown to be positively related to the level of the income floor. The predisposition to build up arrears when facing a more generous income guarantee is particularly visible in the case of poorer households. With the exception of Estonia where the impact is somewhat larger, countries do not appear to differ widely in the magnitude of the effect.

The level of the guaranteed income floor has been negatively linked to the conditional level of asset income but not to the probability of it being positive. Similarly, the capacity to face unexpected expenses could not be demonstrated to be lowered by the presence of a higher income floor.

Preliminary results indicate that the presence of asset testing in minimum guaranteed income transfers may discourage both saving and the accumulation of income generating assets. On the other hand, the accumulation of consumer durables appears to be unaffected by the presence of asset-testing.

Overall, the impact of means-tested programs on asset accumulation among low-income households is somewhat ambiguous. On the one hand, with the exception of debt management, there are few indications that the income floor implicitly created by the programs represents a disincentive to saving. On the other hand, asset tests present in means-tested programs may play a role in depressing asset accumulation among low-income households.

The various findings brought together paint a picture of similarity rather than of differentiation among social assistance schemes in Central and Eastern Europe. Despite much touting of means-testing by the World Bank and other international organizations, this type of transfer remains a marginal component of the social protection system in the region. In design, they very closely mirror features of West European modern social assistance programs, by providing a needs-based transfer aimed at guaranteeing a minimum level of resources for all residents. Beyond this general blueprint however, programs differ, especially in the level of the minimum they set, and in the way they are administered.

Do social assistance programs work as intended? Evidence from the EU-SILC suggests only partly. In particular, all eight schemes experience serious shortcomings in reaching the poor and in filtering out the non-poor. The poor targeting performance points to the importance of administrative capacity for the workings of means-tested benefits. Furthermore, findings suggest that design cannot easily substitute for an efficient administration. First, using low benefits as a self-targeting mechanism is unlikely to solve the problem of separating the needy from the better-off. Second, discretion used in a context of insufficient resources and lack of a proficient administration can be expected to produce arbitrary rationing of transfers rather than improved matching of resources to needs.

Given the limited scope and deficient functioning, it is not surprising that the impact of social assistance transfers on poverty is minimal. Nonetheless, programs with more liberal access and more generous income support do achieve better results. Behavioural responses to the existence of the transfer have been shown to be equally limited. In contrast to some US findings, both welfare dependency and non-saving in the face of an income floor received only limited support in the data. Instead, results are more in line with some European studies showing limited work disincentives arising from the existence of means-tested programs, despite the very high implicit marginal tax rates that they impose. There may be several explanations underlying this pattern. First, it should be noted that the population served by the American and the CEE (and West European) social assistance programs are very different. American federal public assistance is reserved, by and large, to poor single mothers with young children, a group that is particularly difficult to integrate into the labour market. Work disincentives and employment barriers may compound each other in this case. Second, social assistance schemes in CEE are embedded in a

larger social protection setup. In all likelihood, some individuals and families who would otherwise be forced onto social assistance will be supported by other social transfer programs. What is more, the level of social assistance benefits is well below other forms of support, and thus, the program is less attractive as a source of income. Third, the sustained economic growth and subsequent steep upward trend in wages characterizing the region during the 2004-2007 period has potentially played a role in encouraging work over welfare receipt[230]. Summing up, there is no indication that social assistance programs in Central and Eastern Europe have much of an impact, either positive or negative. On a more theoretical level, the lack of program impact questions the hypothesis that generous means-tested benefits are self-defeating. At least up to a certain level, larger transfers appear to better support the living standards of their recipients without causing serious work disincentives.

7.3 IS THERE A ROLE FOR SOCIAL ASSISTANCE IN CENTRAL AND EASTERN EUROPE?

Do social assistance programs in Central and Eastern Europe amount to sound public policy? A recent study has claimed they have been a crucial tool for keeping poverty in check and ensuring the legitimacy of the new institutional order (Cerami 2009). Such a view is at odds with findings presented throughout this work. Far from being a critical component of the social protection system, social assistance programs are marginal and lack impact. However, despite of their shortcomings, social assistance transfers are hardly irrelevant. First, even the most developed welfare state needs a safety net of last resort for those failing to qualify for other types of social support (Leisering 2008). As such, means-tested social assistance remains a necessary component of any modern social protection system. Second, means-tested benefits may provide a much needed buffer against destitution for vulnerable groups such as children especially when they are more generous and access is not exceedingly onerous (see Chapter 4). Yet, social assistance programs should not be counted on to solve the problem of poverty. Paradoxically, they may work best when their scope remains limited[231] (Korpi and Palme 1998; Nelson 2004). They may be necessary but are not sufficient as an anti-poverty instrument. Ultimately, patterns of social stratification depend primarily on processes taking place in the labour market (Hill 2006) and in the capital markets. While undoubtedly important, the impact of public redistribution is mainly at the margins. As such, the role of social assistance cannot but remain limited.

[230] The role of a strong economy has been found crucial in moving welfare clients into work in the US as well (see Chapter 5).

[231] Large means-tested benefit programs clearly directed at the poor tend to lose political support, and so their terms tend to be less generous or become less generous in time.

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APPENDIX 1: Poverty and Inequality measures in CEE during the 1990s and early 2000s

Indicator	Year	**BG**	**CZ**	**EE**	**HU**	**LV**	**LT**	**PL**	**RO**	**SK**	**SI**
Headcount % (Pov line=2.15 $ PPP/day)	1981	0.27	0.00	0.17	0.00	0.00	0.70	1.12	0.00	0.02	0.00
	1984	0.00	0.00	0.18	0.00	0.00	0.52	1.22	0.00	0.02	0.00
	1987	0.00	0.00	0.18	0.00	0.00	0.52	1.09	0.00	0.01	0.00
	1990	0.00	0.00	2.61	0.06	0.00	18.09	0.39	0.00	0.00	0.00
	1993	1.31	0.03	7.46	0.76	5.00	*44.12*	*11.76*	14.22	0.00	0.00
	1996	19.98	0.00	6.90	2.15	8.39	7.79	0.67	13.62	2.88	0.04
	1999	11.20	0.00	5.88	1.77	11.52	7.21	1.16	16.60	2.16	0.00
	2002	9.70	0.00	7.54	0.71	4.14	8.86	1.48	15.62	1.78	0.00
	2004	6.41	0.00	6.72	0.48	4.38	7.53	1.08	12.63	1.67	0.00
Poverty gap-%;Pov line=2.15 $ PPP/day	1981	0.10	0.00	0.07	0.00	0.00	0.18	0.33	0.00	0.01	0.00
	1984	0.00	0.00	0.18	0.00	0.00	0.14	0.35	0.00	0.01	0.00
	1987	0.00	0.00	0.07	0.00	0.00	0.14	0.29	0.00	0.01	0.00
	1990	0.00	0.00	0.78	0.02	0.00	5.28	0.14	0.00	0.00	0.00
	1993	0.45	0.01	1.93	0.28	0.49	12.92	4.60	3.65	0.00	0.00
	1996	3.74	0.00	1.35	0.51	2.22	2.04	0.17	3.07	0.84	0.02
	1999	2.64	0.00	1.24	0.46	2.63	1.55	0.23	3.96	0.58	0.00
	2002	2.58	0.00	1.73	0.18	1.17	1.99	0.28	3.92	0.45	0.00
	1004	1.02	0.00	1.87	0.14	1.03	1.69	0.22	2.90	0.41	0.00

Headcount % ;Poverty line= 4.40$PPP/ day	1981	4.72	0.04	2.32	2.47	0.64	17.94	18.11	3.48	0.41	0.87
	1984	2.59	0.04	2.48	1.73	0.57	13.69	19.57	4.66	0.41	0.87
	1987	1.84	0.02	2.66	1.23	0.49	13.67	19.25	5.81	0.26	0.58
	1990	1.56	0.23	19.13	1.72	0.36	46.23	5.76	5.48	0.10	0.72
	1993	19.53	0.51	36.81	12.18	48.25	87.63	38.21	45.31	2.01	0.90
	1996	78.84	0.96	38.69	28.91	37.59	43.17	13.76	61.56	11.44	0.91
	1999	52.80	0.89	33.46	26.92	45.38	41.79	19.32	63.61	8.51	0.64
	2002	41.44	0.70	35.60	15.85	26.37	44.13	20.57	59.29	7.05	0.48
	2004	39.88	0.00	33.15	10.62	26.30	36.04	17.45	54.82	6.69	0.48
Poverty gap-%; Poverty line=4.40 $PPP/day	1981	0.85	0.01	0.45	0.49	0.16	3.39	3.78	0.95	0.06	0.17
	1984	0.50	0.01	0.48	0.38	0.15	2.47	4.13	1.18	0.06	0.17
	1987	0.38	0.00	0.51	0.29	0.13	2.47	4.07	1.41	0.04	0.13
	1990	0.34	0.05	5.23	0.26	0.11	19.00	1.14	1.35	0.02	0.16
	1993	4.06	0.09	11.78	2.37	13.24	42.17	14.18	17.27	0.16	0.20
	1996	28.72	0.36	11.72	6.74	11.76	13.33	2.75	20.67	3.72	0.19
	1999	17.55	0.34	10.11	5.96	15.22	12.72	4.38	22.56	2.78	0.14
	2002	13.44	0.30	11.36	3.08	7.64	14.10	4.90	20.89	2.30	0.11
	2004	11.24	0.00	10.55	1.95	7.83	11.57	3.96	18.48	2.18	0.11
Gini index	1981	23.43	19.40	22.97	20.96	22.49	22.48	25.16	23.31	19.54	23.60
	1984	23.43	19.40	22.97	20.96	22.49	22.48	25.16	23.31	19.54	23.60
	1987	23.43	19.40	22.97	20.96	22.49	22.48	25.53	23.31	19.54	23.60
	1990	23.43	26.60	39.50	25.05	22.49	26.94	26.89	23.31	19.52	26.39
	1993	24.32	26.60	39.50	27.94	26.99	33.64	32.39	26.83	19.49	29.18
	1996	26.38	25.89	30.06	26.13	31.60	32.36	32.66	28.82	25.81	28.72
	1999	30.36	25.82	37.32	27.78	33.62	30.21	33.08	29.84	25.81	28.41
	2002	31.79	25.82	36.81	26.82	35.91	32.33	34.05	31.46	25.81	28.41
	2004	29.24	25.82	35.78	26.82	37.66	36.01	34.05	31.06	25.81	28.41

Source: The World Bank PovcalNet tool, http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp ;

APPENDIX 2: Comparison of social assistance performance in the Czech Republic, Lithuania and the Slovak Republic- all households vs. single unit households only

Assessment units for evaluating social assistance entitlements have been constructed using program rules. For a detailed description of these see the corresponding EUROMOD country reports (https://www.iser.essex.ac.uk/euromod/resources-for-euromod-users/country-reports). The same rules have been used in each year. The share of households that contain just one social assessment unit differs slightly from country to country and from year to year (see Table 1 below) but generally hovers around 70%.

Table 1: Share of 1 social assistance unit households among all households

	CZ	LT	SK
2004	74,56	76,73	73,25
2005	72,98	74,59	70,22
2006	71,43	69,63	66,54
2007	74,00	74,11	67,92

Source: Own calculations based on the EU-SILC 2007 longitudinal dataset and the 2008 cross-sectional dataset.

Table 2: Extensiveness/ generosity measures

	CZ		LT		SK	
	All hh	1 unit hh	All hh	1 unit hh	All hh	1 unit hh
Average disbursed benefit per person (adjusted based on the equivalence scale						
2004	401,79	383,17	156,21	151,51	326,58	369,34
2005	464,74	427,64	105,98	115,62	416,91	477,08
2006	588,37	598,01	148,27	146,14	390,32	497,67
2007	551,88	559,94	166,13	149,25	521,23	655,95
Spending per poor person (poor defined on the 60% median equivalised income)						
2004	268,26	224,69	28,95	29,34	202,11	184,98
2005	301,96	246,28	19,09	19,80	174,52	130,88
2006	328,46	283,31	28,34	30,08	155,33	118,73
2007	200,81	194,98	29,00	27,19	146,93	104,07
Spending per poor person (poor defined on the 50% median equivalised income)						
2004	423,01	365,57	41,59	43,14	287,51	265,67
2005	526,18	436,61	30,04	33,28	289,45	229,00
2006	528,54	503,55	43,18	48,51	271,64	217,26
2007	349,55	368,62	41,32	40,31	265,62	201,89
Sum of social assistance benefit spending as % of the national poverty gap-60% line						
2004	50,54	41,13	9,82	9,73	45,51	39,73
2005	54,60	42,88	5,82	5,85	43,31	32,69
2006	49,42	43,49	6,92	7,03	35,02	24,03
2007	28,74	27,85	5,20	4,66	26,74	19,29
Sum of social assistance benefit spending as % of the national poverty gap-50% line						
2004	86,18	69,85	16,58	16,34	68,32	58,48
2005	96,73	75,69	10,11	10,04	73,75	56,66
2006	81,88	74,95	12,50	12,82	62,88	41,51
2007	51,94	50,74	9,39	8,33	46,15	33,98
Average benefit size-as % of poor households' budget (poor based on 60% median equivalised						
2004	27,87	27,70	26,80	26,34	48,13	50,51
2005	28,30	28,35	15,44	16,76	38,31	42,20
2006	32,19	31,76	15,95	16,78	34,35	46,68
2007	28,49	29,34	11,79	11,02	33,59	44,27
2004	33,90	33,62	30,74	30,35	53,24	55,72

	CZ		LT		SK	
	All hh	1 unit hh	All hh	1 unit hh	All hh	1 unit hh
2005	36,60	38,21	20,08	24,93	41,78	45,72
2006	39,07	40,27	21,09	23,01	37,22	49,98
2007	33,89	35,79	14,72	14,66	39,26	47,54

Source: Own calculations based on the EU-SILC 2007 longitudinal dataset and the 2008 cross-sectional dataset.

Table 3: Effectiveness measures

	CZ		LT		SK	
	All hh	1 unit hh only	All hh	1 unit hh only	All hh	1 unit hh only
Coverage=% poor receiving SA benefits- (poor based on the 60% median equivalised income line)						
2004	56,81	50,87	13,36	15,70	45,75	43,81
2005	59,22	51,36	14,89	14,71	36,72	26,72
2006	55,36	46,62	14,99	18,84	32,16	22,56
2007	34,32	33,55	20,46	21,14	28,17	16,51
Coverage=% poor receiving SA benefits- (poor based on the 50% median equivalised income line)						
2004	68,02	64,19	15,86	18,85	56,86	55,45
2005	71,28	62,20	15,80	14,61	53,25	42,17
2006	68,97	61,30	15,99	20,36	48,38	37,91
2007	47,33	49,52	22,37	22,24	40,11	29,20
Sum of well targeted social assistance benefit spending as % of the national poverty gap-based on the 60% median equivalent income line						
2004	35,47	32,55	6,33	7,02	32,46	30,87
2005	38,42	33,97	3,63	4,00	25,98	21,12
2006	38,05	34,96	4,06	5,09	23,67	20,49
2007	22,56	23,14	3,42	3,15	18,93	15,88
Sum of well targeted social assistance benefit spending as % of the national poverty gap-based on the 50% median equivalent income line						
2004	49,79	46,99	8,80	9,93	43,89	41,41
2005	54,27	50,15	4,13	4,20	39,76	34,95
2006	54,45	51,91	5,93	7,39	34,49	31,19
2007	34,74	36,73	4,99	4,84	26,59	24,49
Average % reduction in the poverty rate-total population- (poor defined on the 60% median equivalised income line)						
2004	11,44	6,61	1,31	1,73	5,73	3,74
2005	14,97	9,40	2,14	2,79	5,15	1,72

	CZ		LT		SK	
	All hh	1 unit hh only	All hh	1 unit hh only	All hh	1 unit hh only
2006	10,20	7,45	0,67	0,97	6,76	3,42
2007	4,56	3,97	1,05	1,36	5,73	1,81
Average % reduction in the poverty rate-total population-(poor defined on the 50% median equivalised income line)						
2004	26,35	23,92	3,29	2,74	13,95	12,12
2005	25,62	19,51	3,17	4,68	8,74	3,29
2006	25,39	21,36	1,93	2,44	15,78	10,08
2007	13,55	12,27	3,08	1,68	9,94	6,56
Average % reduction in the poverty rate-SA recipients- (poor defined on the 60% median equivalised income line)						
2004	20,13	12,99	9,83	11,24	12,52	8,53
2005	25,28	18,29	14,37	12,68	14,03	6,45
2006	18,42	15,98	4,47	15,76	21,04	15,15
2007	13,29	11,83	5,15	14,53	20,34	10,99
Average % reduction in the poverty rate-SA recipients- (poor defined on the 50% median equivalised income line)						
2004	38,74	37,27	20,73	14,53	24,54	21,85
2005	35,94	31,38	20,07	32,00	16,41	7,80
2006	36,81	34,85	12,06	11,99	32,61	26,59
2007	28,62	24,77	13,76	7,57	24,78	22,46
Average % reduction in the poverty gap- total population- (poor defined on the 60% median equivalised income line)						
2004	31,44	26,46	6,02	6,76	23,64	21,33
2005	33,43	26,36	5,30	5,92	17,62	10,15
2006	31,42	26,16	10,14	5,60	17,40	11,29
2007	16,03	15,66	4,37	4,04	14,67	7,85
Average % reduction in the poverty gap- total population- (poor defined on the 50% median equivalised income line)						
2004	48,82	44,76	8,32	9,71	35,17	32,67
2005	49,90	41,45	6,43	15,60	29,37	18,67
2006	49,77	43,75	6,93	16,81	54,12	23,08
2007	28,51	30,88	7,21	15,06	31,40	16,98
Average % reduction in the poverty gap- SA recipients- (poor defined on the 60% median equivalised income line)						
2004	55,35	52,01	45,08	43,08	51,68	48,69
2005	56,44	51,32	35,61	40,22	47,97	38,00
2006	56,75	56,11	28,45	29,72	54,12	50,03
2007	46,69	46,66	21,38	19,11	52,09	47,55
Average % reduction in the poverty gap- SA recipients- (poor defined on the 50% median						

	CZ		LT		SK	
	All hh	1 unit hh only	All hh	1 unit hh only	All hh	1 unit hh only
equivalised income line)						
2004	71,78	69,72	52,47	49,43	61,86	58,92
2005	70,00	66,64	40,69	46,26	55,16	44,28
2006	72,16	71,38	43,35	42,89	64,91	60,89
2007	60,23	62,35	32,25	27,50	58,07	58,15
Average % reduction in the Gini coefficient- SA recipients						
2004	26,65	29,29	18,40	23,41	24,05	25,76
2005	27,85	30,48	8,54	12,11	21,24	25,80
2006	32,04	35,06	9,47	14,36	22,97	30,99
2007	25,57	29,70	7,19	7,41	23,35	31,65

Source: Own calculations based on the EU-SILC 2007 longitudinal dataset and the 2008 cross-sectional dataset.

Table 4: Efficiency measures

	CZ		LT		SK	
	All hh	1 unit hh only	All hh	1 unit hh only	All hh	1 unit hh only
Leakage=% non-poor recipients-(poor defined based on the 60% median equivalised income line)						
2004	45,27	42,80	54,76	46,76	53,85	43,74
2005	42,35	41,82	44,48	38,18	43,93	31,41
2006	38,77	35,43	48,59	38,76	48,98	34,95
2007	37,53	33,99	30,18	29,34	37,29	29,05
Leakage=% non-poor recipients- poor defined based on the 50% median equivalised income line)						
2004	58,45	55,64	62,60	56,53	59,68	50,41
2005	60,17	60,26	62,56	63,48	50,98	38,12
2006	52,60	52,23	64,02	58,96	56,10	40,27
2007	50,51	48,47	46,41	49,87	50,61	35,32
Sum of well targeted benefits as a % of the sum of all benefits (poor defined based on the 60% median equivalised income line)						
2004	70,18	79,13	64,43	72,13	71,31	77,69
2005	70,36	79,23	62,45	68,32	59,98	64,61
2006	77,00	80,40	58,71	72,42	67,60	85,26
2007	78,50	83,10	65,76	67,46	70,77	82,32
Sum of well targeted benefits as a % of the sum of all benefits (poor defined based on the 50% median equivalised income line)						

	CZ		LT		SK	
	All hh	1 unit hh only	All hh	1 unit hh only	All hh	1 unit hh only
2004	57,78	67,27	53,07	60,79	64,24	70,82
2005	56,11	66,26	40,80	41,88	53,91	61,68
2006	66,50	69,25	47,45	57,63	54,85	75,14
2007	66,88	72,39	53,10	58,04	57,63	72,06

Source: Own calculations based on the EU-SILC 2007 longitudinal dataset and the 2008 cross-sectional dataset.

APPENDIX 3: Construction of the social assistance program feature scores

With the exception of support services, all fuzzy scores have been derived from an interval variable. The derivation involved the indirect method described by Ragin (Ragin 2000; Ragin 2008). In a first step, the eight countries have been grouped based on their score on the interval level variable and assigned a first 'raw' fuzzy score. In a second step, the 'raw score' has been refined using a fractional logit model.

Table 1: Rules for the derivation of fuzzy score

Dimension	Components	Indicators	Interval variable
Centralization	Based on location (central vs. local) of benefit setting, financing and delivery of benefits	A score of 1 has been assigned to benefit setting/ delivery if these are centralized; 0 is assigned if carried out at the local level; the financing indicator is based on the proportion of financing coming from the central government. Where this is not known, an estimation is entered.	Since a minimum benefit is set centrally in all countries, the centralization score is based on the remaining two indicators; financing has been assigned twice the weight of benefit delivery.
Benefit generosity		Maximum benefit for single person as % of average gross earnings	Maximum benefit for single person as % of average gross earnings
Strictness of the means-test	Based on the existence of earnings disregards, of other income disregards and of asset disregards when establishing and maintaining eligibility	Earnings-1- the percentage of disregarded earnings; Other income- A score of 1 indicated no income disregards; 0.8 only special circumstances allowances disregarded; 0.6-at least one sizable income disregarded (ex: family allowance); 0.4-2-3 important income sources disregarded; 0.2- more than 3-4 income sources disregarded Assets-1-no disregards; 0-assets not considered; lower scores indicate less strictness of the test	A simple average of the three indicators
Support services	Based on availability of health benefits, a housing benefit and child care;	Health care-a score of 1 signals that health care benefits are available to SA recipients either through the SA program or they are free at the point of delivery for all citizens; a score of 0 signals that SA recipients do not have access to health benefits, except for emergency care or by paying out of the pocket	Greater weight is assigned to child-care. The overall index=[2*childcare score + health score + housing score]/4;

Dimension	Components	Indicators	Interval variable
		Housing-if a centrally set housing benefit exists-0.9; if a benefit exists, but is set locally 0.4; if a benefit exists but not to cover rent but only utilities 0.2; if no benefit exists-0; Child care- a composite indicator=[2*% of 0-3 cohort in formal childcare+ % 3-school age cohort in formal childcare]/3;	
Impact on employment participation	Magnitude of the effect	Based on the estimated impact of SA receipt in the previous year.	Based on the estimated impact of SA receipt in the previous year.
Impact on the odds of having positive labour income	Magnitude of the effect	Based on the estimated impact of SA receipt in the previous year.	Based on the estimated impact of SA receipt in the previous year.
Impact on the amount of equilvalised disposable income	Magnitude of the effect	Based on the estimated impact of SA receipt in the previous year.	Based on the estimated impact of SA receipt in the previous year.

Source: Based on program rules and characteristics. See Chapter 3 for more details.

Table 2: Derivation of fuzzy scores for program centralization

	Delivery	Financing	Delivery	Interval variable	Fuzzy score
CZ	1	1	1	3	0.951
EE	0	1	1	2	0.759
HU	0	0.9	1	1.8	0.686
LV	0	0.2	1	0.4	0.146
LT	0	1	1	2	0.759
PL	0	0.2	1	0.4	0.146
SI	1	1	1	3	0.951
SK	1	1	1	3	0.951

Source: Final fuzzy scores based on fractional logistic regression.

Table 3: Derivation of fuzzy scores for benefit generosity

	Benefit for single person	Average wage	Interval variable	Fuzzy Score
CZ	4300	17760	0.242	0.836
EE	750	8073	0.093	0.191
HU	19760	159461	0.124	0.309
LV	21	225.64	0.093	0.191
LT	121.5	1276	0.095	0.197
PL	316	230.62	0.134	0.354
SI	46981	277279	0.169	0.530
SK	4580	17274	0.265	0.891

Source: Final fuzzy scores based on fractional logistic regression.

Table 4: Derivation of fuzzy scores for strictness of the means-test

	Earnings test	Other income test	Asset test	Interval variable	Fuzzy Score
CZ	1	0.9	0	1.9	0.487
EE	1	0.6	0	1.6	0.326
HU	1	0.6	0.8	2.4	0.745
LV	1	1	0.9	2.9	0.900
LT	1	0.8	0.9	2.7	0.852
PL	1	1	0.8	2.8	0.878
SI	1	0.6	0.8	2.4	0.745
SK	0.75	0.4	0	1.35	0.216

Source: Final fuzzy scores based on fractional logistic regression.

Table 5: Fuzzy score for outcome variables

	B (earnings)	FS (earnings)	B (labour income)	FS (labour income)	B (disposable income)	FS (disposable income)
CZ	0.785	0.2776	-4.850	0.9891	-0.119	0.9099
EE	-6.733	0.9483	-2.805	0.8580	-0.113	0.9545
HU	-0.876	0.4745	-3.044	0.8922	-0.064	0.7967
LV	1.693	0.1941	-1.492	0.5141	0.002	0.1071
LT	1.156	0.2410	-7.669	0.9997	0.001	0.1201
PL	3.138	0.1028	-1.583	0.5442	-0.063	0.6820
SI	2.516	0.1363	-2.207	0.7319	0.085	0.6534
SK	-1.325	0.2254	-1.821	0.6207	-0.111	0.9261

Note: B- original logistic regression coefficients; FS-fuzzy score.
Source: B-s constructed based on Tables 5, 10 & 18 and the respective estimation sample sizes; fuzzy score determined via a fractional logistic regression.

APPENDIX 4: Impact of Social Assistance Participation & Benefits on Earnings- Full Models

Table 1: Likelihood of having positive total household earnings (odds ratios)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	0.625***	1.347***	0.343***	0.854	0.644***	0.934	0.494***	0.835	0.486***	0.882	0.960	1.458***	1.295*	1.877***	1.010	1.313
SA eligibility (lag 1)	0.216***	0.546***	0.172***	0.414***	0.385***	0.696*	0.148***	0.496***	0.209***	0.590**	0.189***	0.334***	0.156***	0.338**	0.566**	0.939
SA receipt (L1)* SA eligibility (L1)	1.308	0.610*	0.759	0.429*	1.355	1.028	3.995**	2.452*	2.351*	1.342	1.145	0.8307	0.618	0.460*	0.271***	0.265***
N	7512	2307	5447	1846	6235	2371	3310	1014	3627	1170	13019	5458	7849	2793	4336	1431

Notes: *p<0.05; **p<0.01; ***p<0.001

Source: Own calculations based on the EU-SILC 2007 longitudinal dataset.

Table 2: Probability of having positive household earnings, full model (odds ratios)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	0,732*	1,101	0,460**	0,562*	0,682**	0,902	0,560**	0,958	0,780	1,059	0,990	1,190	1,163	1,444*	0,872	1,063
SA eligibility (lag 1)	0,366***	0,696	0,164***	0,176***	0,391***	0,373***	0,256***	0,273***	0,305***	0,271***	0,171***	0,202***	0,361*	0,502	0,336***	0,296***
SA receipt (L1)* SA eligibility (L1)	1,348	0,602	1,465	1,203	1,356	1,269	4,580**	2,533	1,844	1,141	1,778*	1,209	0,700	0,388	0,427*	0,404
Single parent	0,880	1,134	0,727	1,200	0,952	0,949	0,848	1,311	0,703	0,835	0,818**	0,889	1,575*	1,894**	1,244	1,229
Large family (3+ children)	1,709*	1,675	0,264***	0,377*	0,549*	0,627	0,179***	0,362	0,247***	0,253***	0,470***	0,486***	0,404*	0,491	0,274**	0,352*
No children<7	1,051	1,281	1,481**	1,177	1,187	1,131	1,402	1,324	1,570*	1,516*	1,114	1,123	1,225	0,984	0,910	0,837
No children (<18)	1,327***	1,541***	2,068***	2,374***	2,080***	2,557***	2,278***	2,314***	1,691***	2,070***	1,328***	1,552***	1,628***	1,783***	2,147***	2,831***

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Max hh education	1,218***	0,956	1,359***	1,042	1,515***	1,084	1,849***	1,426***	1,746***	1,117	1,548***	1,182***	1,987***	1,390***	1,507***	1,103
Total no of months unemployed	0,838***	0,780***	0,827***	0,850***	0,937*	0,908*	0,878**	0,889*	0,857***	0,875**	0,906***	0,924***	0,961	0,971	0,850***	0,790***
Total no of months inactive	0,894***	0,911***	0,851***	0,910***	0,898***	0,928***	0,895***	0,922***	0,893***	0,933***	0,935***	0,975***	0,888***	0,894***	0,893***	0,898***
No persons unemployed	2,030*	4,497***	1,690	2,216	1,131	2,085	1,605	2,306	2,288*	3,210**	1,963***	2,554***	0,928	1,034	2,261*	5,065**
Urban (0/1)	0,854	0,774*	1,712***	1,740**	1,151	0,785	1,684***	0,859	2,045***	1,297	1,423***	1,234**	-	-	1,183	0,849
Owner (0/1)	0,874	0,857	0,869	0,734	1,149	1,092	0,842	0,698	0,772	0,924	0,575***	0,608***	0,866	0,857	0,979	1,007
No working age adults	4,774***	6,665***	6,856***	6,627***	4,674***	5,701***	3,781***	3,242***	3,344***	2,712***	2,559***	2,198***	6,518***	8,298***	4,069***	4,805***
Non-labour market income (thousands €)	0,917***	0,555***	1,099	0,625**	0,992	0,517***	0,901	0,309**	0,846**	0,375***	0,798***	0,555***	0,998	0,978	0,970	0,532*
Social protection income (excluding SA) (thousands €)	0,618***	0,443***	0,655***	0,408***	0,641***	0,430***	0,673***	0,365***	0,652***	0,400***	0,787***	0,619***	0,826***	0,756***	0,608***	0,390***
N	7512	2307	5443	1845	6231	2369	3310	1014	3627	1170	12699	5304	7827	2781	4334	1431

Notes: *p<0.05; **p<0.01; ***p<0.001
Source: Own calculations based on the EU-SILC 2007 longitudinal dataset.

Table 3: Probability of having positive household earnings, conditional on program participation and benefit amount (odds ratios)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1	0.759	1.129	0.435*	0.606	0.642**	0.850	0.490*	0.772	0.758	0.931	1.178	1.434	1.034	1.362	0.759	1.129
SA eligibility (lag 1)	0.363***	0.690	0.162***	0.176***	0.391***	0.371***	0.255***	0.272***	0.311***	0.277***	0.171	0.201	0.350	0.484	0.363	0.690
SA receipt (L1)* SA eligibility (L1)	1.585	0.735	2.045	1.964	2.286*	2.180	2.509	1.334	7.485*	6.347	1.271	0.863	1.463	0.950	1.585	0.735
SA receipt (L1)*SA	0.855	0.829	0.568	0.540	1.501	1.720	1.349	1.664	0.141	0.326	0.422	0.365	1.239	1.133	0.855	0.829

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
amount (L1)																
SA Receipt (L1) * SA amount ^2 (L1)	1.000	1.000	1.001	1.001	1.000	1.000	1.001	1.002	1.006	1.007	1.000	1.001	1.000	1.000	1.000	1.000
SA eligibility (L1) *SA receipt (L1) * SA amount (L1)	1.111	1.290	0.563	0.254	0.086*	0.072*	59.075	93.140	0.000	0.000	4.308	5.582	0.620	0.675	1.111	1.290
SA eligibility (L1) *SA receipt (L1) * SA amount ^2(L1)	1.000	1.000	1.000	1.000	1.001*	1.001*	0.997	0.995	1.008	1.007	0.999	0.999	1.000	1.000	1.000	1.000
Single parent	0.881	1.127	0.749	1.217	0.944	0.939	0.858	1.302	0.732	0.881	0.817	0.886	1.548	1.842	0.881	1.127
Large family (3+ children)	1.768*	1.806	0.273**	0.378*	0.524*	0.581	0.178**	0.352	0.235**	0.248**	0.472	0.488	0.430	0.534	1.768	1.806
No children<7	1.033	1.214	1.491**	1.186	1.177	1.107	1.422	1.339	1.586**	1.491	1.112	1.120	1.224	1.033	1.214	1.491
No children (<18)	1.336***	1.583***	2.038***	2.358***	2.110***	2.630***	2.263***	2.321***	1.663***	2.056***	1.330	1.555	1.651	1.829	1.336	1.583
Max hh education	1.219***	0.954	1.357***	1.046	1.516***	1.085	1.848***	1.419***	1.747***	1.121	1.549	1.183	1.984	1.378	1.510	1.219
Total no of months unemployed	0.846***	0.793***	0.827***	0.846***	0.939*	0.909**	0.878**	0.885*	0.860***	0.878**	0.906	0.924	0.968	0.982	0.860	0.846
Total no of months inactive	0.895***	0.915***	0.851***	0.911***	0.897***	0.928***	0.895***	0.921***	0.893***	0.934***	0.935	0.975	0.890	0.897	0.894	0.895
No persons unemployed	1.970*	4.472**	1.701	2.344	1.112	2.069	1.618	2.434	2.186*	3.053*	1.972	2.571	0.889	0.977	2.138	1.970
Urban (0/1)	0.862*	0.797	1.698***	1.734**	1.155	0.792	1.672***	0.849	2.050***	1.288	1.424	1.238	1.000	1.000	1.187	0.862
Owner (0/1)	0.864	0.824	0.876	0.739	1.152	1.100	0.836	0.690*	0.774	0.924	0.572	0.600	0.858	0.847	0.971	0.864
No working age adults	4.788***	6.738***	6.855***	6.614***	4.699***	5.755***	3.795***	3.281***	3.286***	2.623***	2.563	2.205	6.524	8.389	4.142	4.788
Non-labour market income (thousands €)	0.916***	0.546***	1.085	0.622**	0.991	0.516***	0.903	0.292**	0.845***	0.371***	0.799	0.556	0.998	0.978	0.958	0.916
Social protection income (excluding SA) (thousands €)	0.618***	0.443***	0.650***	0.408***	0.641***	0.429***	0.673***	0.365***	0.650***	0.404***	0.787	0.618	0.826	0.755	0.605	0.618
N	7512	2307	5443	1845	6231	2369	3310	1014	3627	1170	12699	5304	7827	2781	4334	1431

Notes: *p<0.05; **p<0.01; ***p<0.001
Source: Own calculations based on the EU-SILC 2007 longitudinal dataset.

Table 4: Impact of social assistance participation on total amount of household earnings (conditional on positive earnings)-full model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	-0,352***	-0,150***	-0,404***	-0,275***	-0,312***	-0,171***	-0,359***	-0,356**	-0,330***	-0,097	-0,385***	-0,226**	-0,143***	-0,095*	-0,164**	-0,075
SA eligibility (lag 1)	-0,764***	-0,369***	-0,709***	-0,605***	-0,554***	-0,425***	-0,576***	-0,402**	-0,873***	-0,741***	-0,898***	-0,694***	-1,313***	-1,264***	-0,565***	-0,403***
SA receipt (L1)* SA eligibility (L1)	0,391***	0,044	0,272	0,269	0,079	-0,064	-0,008	0,014	0,398*	0,264	0,142	0,012	0,272	0,136	0,068	-0,170
Single parent	-0,174***	-0,044	-0,233***	-0,020	-0,075*	-0,016	-0,237***	0,018	-0,163***	0,008	-0,184***	-0,063*	-0,119***	-0,034	-0,101**	-0,143**
Large family (3+ children)	-0,009	-0,070	-0,243***	-0,139	-0,123*	-0,155	-0,566***	-0,205	-0,193**	-0,230	-0,212***	-0,143**	-0,143*	-0,221*	-,160*	-0,094
No children<7	-0,060**	0,023	0,132***	0,049	0,057*	0,058	0,006	-0,107	0,043	-0,075	0,016	0,013	0,016	0,005	0,017	-0,047
No children (<18)	0,121***	0,260***	0,145***	0,212***	0,155***	0,303***	0,208***	0,248***	0,095***	0,222***	0,113***	0,194***	0,137***	0,283***	0,098***	0,231***
Max hh education	0,180***	0,038	0,161***	0,016	0,297***	0,104***	0,212***	0,064	0,315***	0,046	0,221***	0,066***	0,277***	0,039	0,103***	-0,064*
Total no of months unemployed	-0,043***	-0,021*	-0,044***	-0,017	-0,054***	-0,035***	-0,048***	-0,025	-0,039***	-0,005	-0,022***	-0,005	-0,023**	0,001	-0,024***	-0,013
Total no of months inactive	-0,014***	-0,014**	-0,039***	-0,024***	-0,035***	-0,029***	-0,033***	-0,024***	-0,037***	-0,020***	-0,029***	-0,012***	-0,032***	-0,017***	-0,028***	-0,010
No persons	-0,048	-0,150	-	-0,199	-0,059	-0,070	-0,112	-0,185	-0,055	-	-	-	-	-	-0,090	-0,085

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
unemployed			0,163*							0,246*	0,146**	0,151**	0,200**	0,250**		
Urban (0/1)	0,057***	-0,033	0,095***	0,128**	0,170***	0,008	0,308***	0,072	0,293***	0,203***	0,116***	0,028			0,115***	-0,005
Owner (0/1)	-0,024	0,047	0,094**	0,051	0,160***	0,129*	0,104**	-0,005	0,058	-0,003	-0,049**	-0,118***	0,080**	0,045	0,028	-0,056
No working age adults	0,350***	0,374***	0,376***	0,430***	0,371***	0,500***	0,394***	0,385***	0,351***	0,376***	0,260***	0,302***	0,341***	0,402***	0,322***	0,366***
Non-labour market income (thousands €)	-0,019**	-0,263***	-0,035***	-0,147**	-0,017**	-0,181*	-0,025	-0,429*	0,017	-0,320**	-0,034**	-0,297***	0,014***	0,016**	0,017	-0,037
Social protection income (excluding SA) (thousands €)	-0,127***	-0,202***	-0,081***	-0,195***	-0,099***	-0,231***	-0,047***	-0,278***	-0,066***	-0,234***	-0,078***	-0,207***	-0,064***	-0,109***	-0,089***	-0,218***
N	5971	1406	4768	1231	4984	1604	2850	638	2999	723	9291	3146	7120	2260	3668	999

Notes: *p<0.05; **p<0.01; ***p<0.001
Source: Own calculations based on the EU-SILC 2007 longitudinal dataset.

Table 5: Impact of social assistance participation and benefit amounts on total household earnings in the following year (conditional on positive earnings)-Full Model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1) (in thousands €)	-0.280***	-0.153**	-0.425***	-0.315***	-0.319***	-0.161**	-0.356***	-0.324**	-0.281***	-0.049	-0.389***	-0.241***	-0.135***	-0.093*	0.006	-0.031
SA eligibility (lag 1)	-0.763***	-0.372***	-0.709***	-0.606***	-0.554***	-0.429***	-0.579***	-0.406**	-0.876***	-0.744***	-0.898***	-0.692***	-1.316***	-1.270***	-0.571***	-0.413***
SA receipt (L1)* SA eligibility (L1)	0.354***	0.097	0.533**	0.621**	0.099	-0.045	0.019	0.005	0.257	0.133	0.122	0.055	0.339	0.247	-0.012	-0.111
SA receipt (L1)*SA amount (L1)	0.182**	-0.017	0.145	-0.283	-0.123	-0.004	-0.630	-1.304*	-0.134	-0.613	-0.114	-0.206	-0.013	-0.035	0.170	0.164

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA Receipt (L1) * SA amount ^2 (L1)	0.000**	0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000**	0.000
SA eligibility (L1) *SA receipt (L1) * SA amount (L1)	-0.598***	-0.417**	1.418*	0.883	0.038	-0.231	-0.642	1.286	0.705	1.078	-0.793	-0.632	-0.050	0.036	-0.168	-0.297
SA eligibility (L1) *SA receipt (L1) * SA amount ^2(L1)	0.000***	0.000*	-0.002***	-0.002***	0.000	0.000	0.001	-0.001	0.000	0.000	0.001	0.000	0.000	0.000	0.000*	0.000
Single parent	-0.177***	-0.047	-0.233***	-0.026	-0.075*	-0.013	-0.238***	0.012	-0.160***	0.014	-0.185***	-0.064*	-0.119***	-0.029	-0.095**	-0.132*
Large family (3+ children)	-0.008	-0.066	-0.236***	-0.131	-0.121*	-0.157	-0.565***	-0.246	-0.192**	-0.237*	-0.213***	-0.146**	-0.136*	-0.187	-0.164*	-0.089
No children<7	-0.062**	0.019	0.136***	0.049	0.056*	0.056	0.004	-0.119	0.041	-0.073	0.015	0.012	0.015	0.003	0.013	-0.056
No children (<18)	0.123***	0.260***	0.141***	0.210***	0.155***	0.307***	0.212***	0.269***	0.097***	0.226***	0.114***	0.196***	0.138***	0.283***	0.101***	0.236***
Max hh education	0.180***	0.038	0.160***	0.011	0.297***	0.103***	0.212***	0.066	0.315***	0.047	0.221***	0.067***	0.277***	0.036	0.104***	-0.059*
Total no of months unemployed	-0.043***	-0.019*	-0.039***	-0.008	-0.054***	-0.035***	-0.047***	-0.022	-0.040***	-0.006	-0.022***	-0.005	-0.022**	0.002	-0.022**	-0.009
Total no of months inactive	-0.014***	-0.013**	-0.039***	-0.025***	-0.035***	-0.029***	-0.033***	-0.023**	-0.037***	-0.020***	-0.029***	-0.012***	-0.032***	-0.016***	-0.029***	-0.010
No persons unemployed	-0.045	-0.161	-0.221**	-0.308**	-0.061	-0.075	-0.123	-0.212	-0.052	-0.236*	-0.144**	-0.148**	-0.205**	-0.251**	-0.096	-0.109
Urban (0/1)	0.060***	-0.025	0.094***	0.127**	0.170***	0.008	0.309***	0.083	0.291***	0.195***	0.117***	0.031			0.118***	-0.001
Owner (0/1)	-0.022	0.047	0.096**	0.051	0.159***	0.124*	0.106**	-0.002	0.061	-0.002	-0.052**	-0.129***	0.079**	0.039	0.029	-0.061
No working age	0.349*	0.373*	0.376*	0.435*	0.371*	0.501*	0.392*	0.380*	0.353*	0.383*	0.260*	0.303*	0.342*	0.405*	0.323*	0.366*

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
adults	**	**	**	**	**	**	**	**	**	**	**	**	**	**	**	**
Non-labour market income (thousands €)	-0.019***	-0.260***	0.035***	-0.143**	-0.016*	-0.184*	-0.027	-0.437*	0.017	-0.305**	-0.034**	-0.295***	0.014***	0.016**	0.019	-0.041
Social protection income (excluding SA) (thousands €)	-0.127***	-0.202***	-0.081***	-0.197***	-0.099***	-0.229***	-0.047***	-0.277***	-0.066***	-0.232***	-0.078***	-0.207***	-0.064***	-0.109***	-0.090***	-0.220***
Eligibles (receipt)	0.073	-0.056	0.108	0.306	-0.220*	-0.206*	-0.338	-0.319	-0.024	0.084	-0.267*	-0.186	0.204	0.154	-0.006	-0.142
Eligibles (amount)	-0.416***	-0.434***	1.563**	0.600	-0.085	-0.234	-1.272	-0.017	0.571	0.465	-0.907*	-0.838*	-0.063	0.002	0.002	-0.133
N	5971	1406	4768	1231	4984	1604	2850	638	2999	723	9291	3146	7120	2260	3668	999

Notes:*p<0.05;**p<0.01; ***p<0.001; social assistance receipt and amount are lagged one year; social assistance amounts are entered as thousands of Euros;

Source: Own calculations based on the EU-SILC 2007 longitudinal database.

APPENDIX 5: Impact of Social Assistance Participation & Benefits on Labour Income- Full Models

Table 1: Likelihood of having positive labour income, conditional of social assistance receipt (odds ratios)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	0.528***	1.126	0.356***	0.870	0.520***	0.813	0.372***	0.566*	0.320***	0.551*	0.603***	0.783**	0.693	0.912	0.779	1.113
SA eligibility (lag 1)	0.212***	0.554**	0.373***	0.931	0.334***	0.634**	0.197***	0.651	0.323***	0.931	0.548***	0.970	0.177**	0.381	0.997	1.826
SA receipt (L1)* SA eligibility (L1)	1.058	0.520*	0.476	0.251**	1.525	1.049	4.456**	3.025	1.415	0.777	0.515**	0.373***	0.569	0.453	0.261**	0.226**
N	7512	2307	5447	1846	6235	2371	3310	1014	3627	1170	13019	5458	7849	2793	4336	1431

Notes: *p<0.05; **p<0.01; ***p<0.001.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Table 2: Likelihood of having positive labour income, conditional of social assistance receipt (odds ratios)-Full Model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	0.510**	0.665	0.559*	0.694	0.503***	0.705*	0.487**	0.723	0.437**	0.477*	0.629***	0.860	0.532*	0.563	0.709	1.004
SA eligibility (lag 1)	0.336***	0.545**	0.683	0.767	0.315***	0.289***	0.429**	0.421**	0.699	0.474*	0.723	0.795	0.450	0.643	0.998	1.196
SA receipt (L1)* SA eligibility (L1)	1.129	0.661	0.598	0.470	1.712	1.497	4.876*	3.150	0.562	0.456	1.032	0.650	0.783	0.563	0.510	0.349
Single parent	0.440**	0.693	0.684	0.933	0.766	0.788	0.624	1.041	0.455*	0.433	0.531***	0.620**	0.723	0.981	0.929	1.338
Large family (3+ children)	0.310*	0.480	0.230**	0.248**	0.272***	0.331**	0.068***	0.178*	0.334	0.351	0.316***	0.391**	0.217*	0.326	0.131***	0.385
No children<7	0.640*	0.680	1.668*	1.644*	1.046	0.983	0.847	0.768	1.297	0.800	1.203	1.115	0.568	0.584	0.809	0.777
No children (<18)	3.506***	2.861***	2.064***	2.152***	2.992***	3.800***	4.217***	3.545***	2.487***	3.313**	2.454***	2.543***	3.082***	2.625**	3.424***	2.992***
Max hh education	1.539***	1.118	1.361***	1.104	2.023***	1.322**	2.069**	1.501***	1.740***	1.272*	1.498***	1.151*	1.421***	0.939	1.339**	0.938
Total no of months	0.801*	0.777*	0.818*	0.846*	0.903*	0.868*	0.787*	0.785*	0.683*	0.691*	0.771*	0.767*	0.962	0.938	0.804*	0.781*

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
unemployed	**	**	**	*	*	**	**	*	**	**	**	**			**	**
Total no of months inactive	0.902**	0.936*	0.850**	0.905**	0.892**	0.915**	0.863**	0.915**	0.807**	0.840**	0.858**	0.867**	0.917**	0.919**	0.899**	0.949
No persons unemployed	2.321*	3.650**	1.699	2.029	1.262	2.388*	2.981*	5.855*	5.505**	7.871**	3.013**	3.796**	0.908	1.307	2.525*	3.752*
Urban (0/1)	0.629**	0.643**	0.678*	0.547**	1.078	0.755*	0.723	0.394**	0.500**	0.283**	0.915	0.783*			0.597**	0.454**
Owner (0/1)	1.496**	1.289	1.156	1.199	1.539**	1.497*	1.399*	1.444	1.273	1.889	1.356**	1.820**	2.095**	2.045*	1.169	1.697*
No working age adults	7.196**	8.292**	8.348**	6.819**	6.000**	8.407**	8.763**	6.151**	12.683***	10.668***	7.998**	8.167**	5.520**	6.386**	4.405**	4.907**
Non-labour market income (thousands €)	0.983	0.713*	1.054	0.630*	0.988	0.406**	0.823**	0.374*	0.749**	0.387**	0.676**	0.368**	1.095	0.983*	0.826*	0.343**
Social protection income (excluding SA) (thousands €)	0.564**	0.454**	0.726**	0.569**	0.587**	0.357**	0.618**	0.411**	0.570**	0.296**	0.667**	0.489**	0.872**	0.839**	0.690**	0.467**
N	7512	2307	5443	1845	6231	2369	3310	1014	3627	1170	12699	5304	7827	2781	4334	1431

Notes: *p<0.05; **p<0.01; ***p<0.001.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Table 3:Likelihood of positive labour income, conditional on program participation and benefit amounts (odd ratios)-Full Model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	0.464**	0.513*	0.380**	0.488*	0.507**	0.690*	0.458**	0.667	0.433	0.529	0.571**	0.776	0.543*	0.594	1.068	1.715
SA eligibility (lag 1)	0.330**	0.529**	0.670	0.757	0.314**	0.288**	0.423**	0.417**	0.712	0.488*	0.725	0.795	0.431	0.622	0.992	1.119
SA receipt (L1)* SA eligibility (L1)	1.517	1.067	0.912	0.683	1.649	1.512	4.157*	2.818	0.322	0.235	1.269	0.846	1.009	0.729	0.343	0.217
SA receipt (L1)*SA amount (L1)	0.750	0.537	5.757	7.215	1.222	0.900	1.632	3.961	4.887	9.332	0.260**	0.249**	1.030	1.108	4.197*	5.710*
SA Receipt (L1) * SA amount ^2 (L1)	1.000	1.000	1.009	1.010	1.000	1.000	1.001	1.002	1.006	1.002	1.001	1.001	1.000	1.000	1.000	1.000
SA eligibility (L1) *SA	0.925	1.347	0.046	0.028*	0.223	0.403	3204.7	400.65	0.000	0.000	2.626	3.201	0.813	0.763	0.137*	0.067*

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
receipt (L1) * SA amount (L1)							84	5							*	*
SA eligibility (L1) *SA receipt (L1) * SA amount ^2(L1)	1.000	1.000	0.992	0.991	1.001	1.000	0.996	0.994	1.013	1.014	0.999	0.999	1.000	1.000	1.000	1.000
Single parent	0.422***	0.654	0.692	0.921	0.758	0.787	0.613	1.018	0.489*	0.460	0.534***	0.626**	0.711	0.977	0.925	1.440
Large family (3+ children)	0.327*	0.531	0.250**	0.260	0.266***	0.325**	0.065***	0.161*	0.306	0.311	0.316***	0.394**	0.240*	0.355	0.125**	0.433
No children<7	0.578**	0.591*	1.678*	1.695*	1.043	0.978	0.843	0.773	1.242	0.767	1.210	1.124	0.553	0.562	0.801	0.714
No children (<18)	3.776***	3.183***	2.030***	2.134***	3.012***	3.824***	4.360***	3.640***	2.481***	3.329**	2.466***	2.559***	3.204***	2.766***	3.461***	3.084***
Max hh education	1.553***	1.127	1.360***	1.105	2.025***	1.324**	2.072***	1.493***	1.742***	1.277*	1.500***	1.153*	1.413***	0.919	1.344***	0.941
Total no of months unemployed	0.822***	0.798***	0.830***	0.860**	0.906**	0.871**	0.790***	0.786***	0.683***	0.692***	0.770***	0.766***	0.974	0.955	0.807***	0.791***
Total no of months inactive	0.903***	0.939*	0.850***	0.905***	0.892***	0.914***	0.863***	0.913***	0.807***	0.840***	0.858***	0.867***	0.920***	0.921***	0.895***	0.951
No persons unemployed	2.070	3.544*	1.447	1.682	1.229	2.320*	2.873*	5.801*	5.455***	7.817***	3.039***	3.827***	0.875	1.218	2.405*	3.436*
Urban (0/1)	0.643**	0.670*	0.665*	0.534**	1.080	0.758	0.716	0.386***	0.497***	0.277***	0.920	0.791*			0.590**	0.426***
Owner (0/1)	1.468**	1.232	1.177	1.232	1.535**	1.494*	1.390	1.438	1.279	1.936	1.337**	1.784***	2.081**	2.027*	1.170	1.707*
No working age adults	7.346***	8.698***	8.375***	6.874***	6.004***	8.418***	8.845***	6.291***	12.401***	10.417***	8.079***	8.345***	5.608***	6.568***	4.444***	4.888***
Non-labour market income (thousands €)	0.983	0.691**	1.044	0.607**	0.986	0.406***	0.823*	0.355**	0.749***	0.395**	0.674***	0.368***	1.092	0.983*	0.828	0.368***
Social protection income (excluding SA) (thousands €)	0.564***	0.449***	0.719***	0.565***	0.587***	0.357***	0.618***	0.412***	0.572***	0.301***	0.666***	0.485***	0.872***	0.839***	0.686***	0.462***
N	7512	2307	5443	1845	6231	2369	3310	1014	3627	1170	12699	5304	7827	2781	4334	1431

Notes: *p<0.05; **p<0.01; ***p<0.001; social assistance benefit amounts are centered on the country wave mean and entered in thousands of Euros.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Table 4: Conditional total household labour income and program participation –Full Model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	-0.364***	-0.071	-0.492***	-0.350**	-0.384***	-0.248***	-0.373***	-0.323**	-0.290***	-0.072	-0.393***	-0.207***	-0.156***	-0.123*	-0.146*	-0.113
SA eligibility (lag 1)	-0.936***	-0.345***	-0.787***	-0.629***	-0.515***	-0.407***	-0.760***	-0.561***	-0.890***	-0.682***	-0.802***	-0.579***	-1.197***	-0.998***	-0.450***	-0.271**
SA receipt (L1)* SA eligibility (L1)	0.196	-0.283	0.123	0.123	0.095	-0.029	0.200	0.241	0.441*	0.138	0.131	-0.007	0.070	-0.196	-0.206	-0.431*
Single parent	-0.273***	-0.177*	-0.257***	-0.016	-0.117**	-0.026	-0.238***	0.094	-0.194***	-0.006	-0.199***	-0.104**	-0.100***	0.002	-0.148***	-0.052
Large family (3+ children)	-0.092	-0.162	-0.295***	-0.201*	-0.146**	-0.186*	-0.543***	-0.260	-0.197**	-0.261**	-0.232***	-0.199***	-0.275***	-0.353**	-0.440***	-0.429***
No children<7	-0.023	0.007	0.195***	0.142*	0.078**	0.070	0.066	-0.017	0.057	0.013	0.013	0.003	0.006	-0.031	0.003	-0.043
No children (<18)	0.256***	0.479***	0.236***	0.369***	0.175***	0.327***	0.275***	0.301***	0.157***	0.294***	0.153***	0.267***	0.293***	0.468***	0.289***	0.465***
Max hh education	0.229***	0.117**	0.200***	0.083*	0.317***	0.126***	0.249***	0.122**	0.346***	0.107**	0.291***	0.133***	0.327***	0.108***	0.183***	0.068
Total no of months unemployed	-0.062***	-0.049**	-0.055***	-0.036*	-0.054***	-0.033***	-0.050***	-0.040*	-0.048***	-0.021	-0.030***	-0.017**	-0.034***	-0.028**	-0.042***	-0.045**
Total no of months inactive	-0.015**	-0.004	-0.051***	-0.029***	-0.036***	-0.030***	-0.035***	-0.027***	-0.041***	-0.022***	-0.031***	-0.017***	-0.035***	-0.024***	-0.036***	-0.006
No persons unemployed	0.041	0.057	-0.154	-0.105	-0.042	-0.069	-0.074	-0.002	-0.034	-0.129	-0.109*	-0.089	-0.065	0.037	-0.012	0.145
Urban (0/1)	0.075**	-0.071	0.160***	0.240***	0.200***	0.038	0.328***	0.012	0.298***	0.230***	0.158***	0.019			0.270***	0.120*

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
Owner (0/1)	0.018	-0.012	0.058	-0.010	0.151***	0.123*	0.098*	-0.045	0.013	-0.018	-0.094***	-0.137***	0.090**	0.067	-0.008	-0.052
No working age adults	0.591***	0.791***	0.508***	0.664***	0.398***	0.520***	0.472***	0.543***	0.434***	0.490***	0.351***	0.416***	0.544***	0.702***	0.499***	0.616***
Non-labour market income (thousands €)	-0.030*	-0.326***	0.047***	-0.110	-0.004	-0.229*	0.014	-0.445*	0.018	-0.420***	-0.024	-0.219*	0.020***	0.012**	0.060*	-0.034
Social protection income (excluding SA) (thousands €)	-0.280***	-0.496***	-0.149***	-0.392***	-0.114***	-0.251***	-0.073***	-0.309***	-0.103***	-0.335***	-0.114***	-0.266***	-0.086***	-0.145***	-0.179***	-0.452***
N	6799	1797	5067	1497	5251	1714	3034	772	3274	887	10730	4073	7661	2648	3957	1152

Notes: *p<0.05;**p<0.01;***p<0.001; dependent variable is entered in logarithmic form.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

Table 5: Conditional total household labour income, program participation and benefit amounts –Full Model

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	-0.326***	-0.056	-0.534***	-0.400**	-0.318***	-0.069	-0.374***	-0.294**	-0.283**	-0.050	-0.404***	-0.232***	-0.143***	-0.113	-0.040	-0.083
SA eligibility (lag 1)	-0.937***	-0.347**	-0.788***	-0.629***	-0.516***	-0.410***	-0.763***	-0.565***	-0.888***	-0.684***	-0.801***	-0.576***	-1.202***	-1.009***	-0.455***	-0.285**
SA receipt (L1)* SA eligibility (L1)	0.192	-0.213	0.230	0.260	0.047	-0.175	0.225	0.229	0.324	0.037	0.120	0.035	0.169	-0.010	-0.218	-0.322
SA receipt (L1)*SA amount (L1) thousands €	0.075	0.010	0.042	-0.475	0.146	0.581*	-0.584	-1.422**	0.190	-0.577	-0.199	-0.309*	-0.009	-0.049	0.167	0.152
SA Receipt (L1) * SA amount ^2 (L1) thousands €	0.000*	0.000	0.000	0.000	0.000	-0.001***	0.000	0.001*	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SA eligibility (L1) *SA receipt (L1) * SA	-0.429	-0.320	1.103	0.931	-0.367	-0.848	0.368	2.115	-0.009	1.039	-0.637	-0.494	-0.093	-0.039	-0.239	-0.355

amount (L1) thousands €																
SA eligibility (L1) *SA receipt (L1) * SA amount ^2(L1) thousands €	0.000**	0.000	-0.001*	-0.001	0.000	0.001*	0.000	-0.002	0.000	0.000	0.001	0.000	0.000	0.000	0.000	0.000
Single parent	-0.275***	-0.181*	-0.254***	-0.023	-0.107**	-0.027	-0.238***	0.092	-0.194***	-0.004	-0.200***	-0.106**	-0.100***	0.005	-0.143***	-0.032
Large family (3+ children)	-0.089	-0.152	-0.290***	-0.202*	-0.150**	-0.220**	-0.539***	-0.300*	-0.212**	-0.268**	-0.233***	-0.202***	-0.266***	-0.311**	-0.432***	-0.407**
No children<7	-0.025	-0.001	0.198***	0.135*	0.071**	0.040	0.064	-0.026	0.060	0.015	0.012	0.002	0.004	-0.036	-0.001	-0.053
No children (<18)	0.257***	0.480***	0.232***	0.374***	0.179***	0.342***	0.279***	0.323***	0.157***	0.297***	0.154***	0.269***	0.294***	0.470***	0.291***	0.470***
Max hh education	0.230***	0.121**	0.198***	0.080*	0.316***	0.126***	0.249***	0.124**	0.346***	0.108**	0.291***	0.134***	0.327***	0.104***	0.185***	0.070
Total no of months unemployed	-0.062***	-0.046**	-0.053***	-0.033*	-0.054***	-0.036***	-0.049***	-0.038*	-0.048***	-0.021	-0.030***	-0.017**	-0.033***	-0.026*	-0.040***	-0.039**
Total no of months inactive	-0.015**	-0.004	-0.051***	-0.029***	-0.036***	-0.028***	-0.035***	-0.026***	-0.041***	-0.022***	-0.031***	-0.017***	-0.034***	-0.022***	-0.036***	-0.005
No persons unemployed	0.042	0.045	-0.173	-0.138	-0.039	-0.031	-0.079	-0.018	-0.031	-0.124	-0.108*	-0.086	-0.072	0.028	-0.022	0.105
Urban (0/1)	0.076**	-0.065	0.159***	0.241***	0.202***	0.051	0.329***	0.023	0.297***	0.225***	0.159***	0.023			0.273***	0.123*
Owner (0/1)	0.018	-0.016	0.057	-0.014	0.153***	0.137*	0.099*	-0.043	0.018	-0.018	-0.097***	-0.150***	0.088**	0.057	-0.008	-0.055
No working age adults	0.591***	0.793***	0.508***	0.667***	0.398***	0.516***	0.471***	0.539***	0.434***	0.496***	0.352***	0.418***	0.545***	0.707***	0.500***	0.620***
Non-labour market income (thousands €)	-0.031*	-0.327***	0.047***	-0.106	-0.004	-0.234*	0.013	-0.456*	0.018	-0.410**	-0.024	-0.218*	0.020***	0.012**	0.061*	-0.044
Social protection income (excluding	-0.280*	-0.497*	-0.150*	-0.391*	-0.114*	-0.250*	-0.074*	-0.309*	-0.102*	-0.335*	-0.114*	-0.266*	-0.086*	-0.145*	-0.179*	-0.454*

SA) (thousands €)	**	**	**	**	**	**	**	**	**	**	**	**	**	**	**	**
N	6799	1797	5067	1497	5251	1714	3034	772	3274	887	10730	4073	7661	2648	3957	1152

Notes: *p<0.05; **p<0.01; ***p<0.001; social assistance benefit amounts are centered on the country wave mean and entered in thousands of Euros; dependent variable is entered in logarithmic form.
Source: Own calculations based on the EU-SILC 2007 longitudinal database.

APPENDIX 6: Impact of Social Assistance Receipt on the Likelihood to Begin Receiving Long-term benefits

Table 1: Odds ratios of starting to receive long-term benefits

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	1.281	1.103	1.494	1.400	2.673***	2.513**	0.827	1.036	1.531	0.733	1.058	1.055	1.101	1.121	1.826	3.364*
SA eligibility (lag 1)	1.263	0.917	0.651	0.500	2.982***	3.304**	0.791	1.322	1.218	1.010	0.666	0.887	1.288	1.599	1.114	0.797
SA receipt (L1)* SA eligibility (L1)	0.529	0.567	1.455	2.093	0.716	0.904	1.257	0.985	0.454	0.400	1.223	0.875	0.627	0.377	0.518	0.465
Single parent	0.901	0.721	1.220	0.992	1.315	1.083	1.164	1.046	1.055	1.201	1.634**	1.100	1.453	1.691	1.522	0.799
Large family	1.653	1.638	3.964**	3.447	2.088	2.107	2.618	0.507	2.234	1.833	2.223**	1.500	1.198	1.784	0.729	Omitted
No children<7	0.574	0.483	0.505**	0.591	0.945	0.911	0.806	0.980	0.627	0.604	0.614**	0.560**	1.558*	2.000*	0.475	0.530
No children (<18)	0.488***	0.511**	0.583***	0.603*	0.522***	0.556**	0.693*	0.904	0.656*	0.877	0.585***	0.778	0.591**	0.466**	0.560**	0.995
Max hh education	0.787**	0.987	0.894	1.084	0.790**	0.981	0.834	0.761	0.987	0.781	0.920	0.862	0.931	0.851	0.996	0.723
Total no of months unemployed	1.048	1.070	0.984	0.982	0.996	0.966	0.982	1.201	0.992	0.989	0.987	1.055	1.043	1.048	1.038	1.055
Total no of months inactive	1.079*	1.041	1.127***	1.151***	0.983	0.993	1.031	1.031	1.107***	1.131**	1.091***	1.086***	1.025	1.019	1.109***	1.132**
No persons unemployed	0.806	0.572	1.548	1.578	0.760	1.056	1.142	0.075*	1.191	1.860	0.965	0.512	0.883	0.678	0.764	0.519
Urban (0/1)	0.990	1.220	0.989	0.824	1.126	1.351	0.972	1.483	1.161	1.493	1.013	0.832			1.025	1.092
Owner (0/1)	1.754	1.635	0.974	0.899	2.198**	2.003*	1.671*	1.877	2.103*	0.842	1.122	1.060	1.306**	1.083	3.781**	3.726
No working age adults	1.017	0.916	1.122	1.006	1.257**	1.270*	1.114	1.310	0.847	0.793	1.130*	1.098	1.298	1.209	0.891	0.798
N	4999	1478	3495	993	3684	1350	2102	573	2241	655	7184	2987	4601	1488	2727	782

Notes: *p<0.05;**p<0.01;***p<0.001.

Source: Own calculations based on the EU-SILC 2007 longitudinal database.

APPENDIX 7: Impact of Social Assistance Receipt on Social Protection Income

Table 1: Odds ratios of starting to receiving social protection income

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	2.038**	1.152	1.877	0.728	1.817**	1.551	1.236	1.315	2.176**	1.836	1.642***	1.226	0.647**	0.530**	1.014	0.729
SA eligibility (lag 1)	0.772	0.427**	0.465*	0.279**	3.021*	2.776	0.394**	0.466*	0.891	0.775	0.791	0.514**	0.375*	0.384*	0.796	0.567
SA receipt (L1)* SA eligibility (L1)	0.404*	0.551	3.080	9.871**	0.495	0.450	3.738*	4.031	1.139	1.307	0.560	0.648	3.003	2.014	0.580	0.601
Single parent	1.486*	2.629*	0.720	1.539	0.944	0.924	0.448*	0.978	1.191	1.023	1.127	1.234	1.434*	1.219	0.994	2.020
No children<7	4.812***	6.740**	0.973	2.384	3.333***	2.262	2.434*	4.328	12.705***	14.503***	1.239**	1.742***	2.310***	3.361	4.674**	3.365
No children (<18)	1.260**	1.669**	10.024***	4.143***	2.873***	1.866**	7.184***	2.744*	0.968	1.222	1.015	1.209**	1.708***	2.031***	3.102***	2.712**
No working age adults	0.965	1.051	1.415***	1.568**	1.061	1.092	1.254**	1.381*	1.152*	1.090	1.127***	1.040	1.257***	1.298*	1.088	1.055
No retired	154.138***	Omitted	462.941***	182.190***	53.013***	22.693***	77.984***	34.666***	294.888***	Omitted	61.429***	32.134***	47.101***	29.340***	128.438***	Omitted
Urban (0/1)	0.817*	1.102	0.802*	0.653	0.811*	0.744	0.879	1.268	0.993	1.108	0.913	0.890			0.931	1.410
Owner (0/1)	1.126	1.170	0.954	1.079	1.626***	1.372	0.964	0.885	0.997	0.743	1.044	0.994	1.245	1.188	1.164	1.074
Receipt of non SA social protection benefits (lag 1)	56.111***	44.833***	34.881***	49.553***	25.229***	27.679***	18.496***	27.211***	33.933***	41.550***	45.742***	49.490***	74.507***	114.276***	47.776***	40.110***
N	10723	2246	7418	3010	9005	3564	4936	1971	5264	1062	16987	6834	9939	3922	5752	1361

Notes: *p<0.05;**p<0.01;***p<0.001.

Source: Own calculations based on the EU-SILC 2007 longitudinal database

Table2: Average amount of social protection income

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	0.127*	0.093*	0.105	-0.013	0.048*	0.045	0.113*	0.041	-0.038	-0.014	-	0.089*	0.161*	0.060*	0.007	-0.091

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
	**	*					**				0.064*	*	**			
SA eligibility (lag 1)	0.243***	0.175***	-0.099	-0.146	0.199***	0.122*	0.030	0.161	0.025	-0.028	-0.281**	-0.209*	0.307**	0.166*	0.116	0.025
SA receipt (L1)* SA eligibility (L1)	-0.123*	-0.139*	0.002	0.063	0.008	0.077	-0.219	-0.339	-0.237	-0.350	-0.164	-0.098	-0.308*	-0.258*	-0.244*	-0.167
Single parent	-0.154***	-0.286***	-0.098**	-0.199***	-0.103**	-0.113**	-0.122*	-0.278***	-0.064	-0.037	0.020	0.027	0.033	0.018	-0.058	-0.140*
No children<7	0.315***	0.215***	0.204***	0.084*	0.128***	0.061*	0.179***	0.134*	-0.085	-0.021	-0.027	-0.036	0.141***	0.064**	0.308***	0.303***
No children (<18)	-0.244***	-0.078***	-0.046**	0.018	-0.034**	0.043**	-0.138***	-0.056	-0.069**	-0.055	-0.142***	-0.058***	-0.095***	-0.036**	-0.214***	-0.132***
No working age adults	-0.119***	-0.182***	-0.025*	-0.047**	-0.005	0.019	0.006	-0.055*	0.001	-0.001	0.029***	-0.010	0.018*	-0.016	-0.077***	-0.085***
No retired	-0.095***	-0.122***	0.367***	0.242***	0.233***	0.306***	0.440***	0.186***	0.202***	0.172***	0.208***	0.221***	0.274***	0.161***	0.321***	0.348**
Urban (0/1)	-0.029	-0.024	-0.060**	-0.071*	0.001	0.002	-0.076**	-0.022	-0.049*	-0.004	-0.010	-0.086***			-0.080**	-0.052
Owner (0/1)	0.014	-0.002	-0.014	-0.056	0.036	0.016	-0.003	-0.009	0.230***	0.194**	0.057***	0.071**	0.043	0.034	0.151**	0.063
Non SA social protection ben (lag1)-thousands €	0.372***	0.385***	0.337***	0.368***	0.231***	0.218***	0.414***	0.620***	0.437***	0.461***	0.256***	0.392***	0.144***	0.155***	0.296***	0.251*
N	8415	3932	6232	2728	7770	3283	4051	1701	3790	1736	12949	5740	8479	3586	4944	2098

Notes: *p<0.05;**p<0.01;***p<0.001; dependent variable entered in logarithmic form.
Source: Own calculations based on the EU-SILC 2007 longitudinal database

APPENDIX 8: Impact of Social Assistance Receipt & Benefits on Future Disposable Income

Table 1: Average equivalised disposable income (conditional on positive income)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	-0.332***	-0.133***	-0.493***	-0.207***	-0.302***	-0.095***	-0.318***	0.010	-0.432***	-0.024	-0.485***	-0.118***	-0.190***	-0.039**	-0.185***	-0.093***
SA eligibility (lag 1)	-0.609***	-0.307***	-0.826***	-0.656***	-0.660	-0.342***	-1.217***	-0.864***	-1.347***	-0.915***	-0.968***	-0.731***	-1.222***	-0.935***	-0.501***	-0.315***
SA receipt (L1)* SA eligibility (L1)	0.181***	0.014	-0.096	-0.075	0.107	0.012	0.331	0.142	0.550***	0.172	0.281***	0.182*	0.499**	0.442**	-0.112	-0.173**
N	10722	4255	7387	2983	8997	3553	4888	1923	5250	2115	17322	6979	9959	3932	5752	2276

Notes: *p<0.05;**p<0.01;***p<0.001; dependent variable entered in logarithmic form.
Source: Own calculations based on the EU-SILC 2007 longitudinal database

Table 2: Social assistance participation effects on average equivalised disposable income (conditional on positive income)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	-0.196***	-0.084***	-0.243***	-0.109**	-0.171***	-0.077***	-0.132***	-0.004	-0.145***	-0.006	-0.209***	-0.067***	-0.129***	-0.083***	-0.183***	-0.083***
SA eligibility (lag 1)	-0.276***	-0.196***	-0.262**	-0.368***	-0.347***	-0.277***	-0.768***	-0.674***	-0.795***	-0.619***	-0.433***	-0.505***	-0.798***	-0.874***	-0.413***	-0.295***
SA receipt (L1)* SA eligibility (L1)	0.031	-0.018	-0.364**	-0.184	0.007	0.000	0.216	0.145	0.265	0.110	-0.024	0.079	0.411**	0.474***	-0.085	-0.166**
Single parent	-0.107***	-0.063***	-0.081***	-0.009	-0.074***	0.004	-0.066**	0.009	-0.088***	-0.017	-0.076***	-0.027	-0.050**	0.013	-0.114***	-0.063*
Large family (3+	-	-0.001	-	0.020	-	0.032	-	0.052	-0.061	0.057	-	-	-	0.016	-	-0.031

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
children)	0.096***		0.076**		0.095***		0.134**				0.158***	0.048*	0.059*		0.204***	
No working age adults	0.077***	0.035***	0.078***	0.038***	0.044***	0.037***	0.103***	0.006	0.063***	0.034**	0.000	-0.004**	0.044***	0.051***	0.054***	0.026***
No retired	0.016**	0.094***	0.057***	0.169***	0.093***	0.170***	0.032**	0.196***	0.055***	0.143***	0.082***	0.112***	0.013	0.060***	-0.013	0.100***
Max hh. Education	0.069***	0.006	0.053***	0.006	0.131***	0.021**	0.101***	0.021**	0.066***	-0.001	0.075***	0.002	0.135***	0.052***	0.108***	0.019*
Urban (0/1)	0.022***	-0.005	0.022*	0.043**	0.112***	0.007	0.148***	0.019	0.093***	0.071***	0.069***	0.017			0.076***	0.029*
Owner (0/1)	0.005	-0.001	0.028	-0.007	0.072***	0.048	0.049*	-0.021	0.019	0.051	-0.050***	-0.052***	0.044**	0.008	0.050**	0.026
Disposable income (lag1)	7.67E-05***	0.000054***	0.000157***	0.000118***	5.17E-05***	1.36E-05*	0.000143***	6.46E-05*	0.000191***	0.000178***	0.000145***	0.000107***	3.33E-05*	5.20E-06	2.13E-05***	1.85E-06***
N	10722	4255	7358	2974	8993	3552	4888	1923	5248	2114	16964	6816	9935	3919	5748	2274

Notes: *p<0.05;**p<0.01;***p<0.001; dependent variable entered in logarithmic form.
Source: Own calculations based on the EU-SILC 2007 longitudinal database

Table 3: Social assistance participation and benefit amounts' impact on average disposable equivalised income (conditional on positive income)

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (lag 1)	-0.202***	-0.104***	-0.229***	-0.111**	-0.173***	-0.063**	-0.139***	-0.008	-0.137***	-0.006	-0.208***	-0.066***	-0.124**	-0.077***	-0.180***	-0.093**
SA eligibility (lag 1)	-0.275***	-0.195***	-0.261**	-0.370***	-0.347***	-0.277***	-0.769***	-0.676***	-0.796***	-0.622***	-0.433***	-0.506***	-0.798***	-0.875***	-0.413***	-0.295***
SA receipt (L1)* SA eligibility (L1)	0.033	-0.009	-0.381**	-0.181	0.015	-0.009	0.241	0.166	0.244	0.104	-0.062	0.054	0.313	0.326*	-0.046	-0.141*

	CZ		EE		HU		LV		LT		PL		SI		SK	
	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2	All	Q1-2
SA receipt (L1)*SA amount (L1)	-0.043	-0.073*	-0.075	-0.012	-0.003	0.012	-0.197	-0.120	-0.018	-0.143	-0.021	0.023	-0.001	-0.001	0.054	0.061
SA Receipt (L1) * SA amount ^2 (L1)	0.000	0.000	0.000	0.000	0.000	0.000*	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
SA eligibility (L1) *SA receipt (L1) * SA amount (L1)	-0.037	0.044	0.639	0.474	-0.075	-0.008	-0.509	0.087	-0.480	-0.055	0.334	0.238	0.098*	0.141**	0.027	0.027
SA eligibility (L1) *SA receipt (L1) * SA amount ^2(L1)	0.000*	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.000	0.000	0.000	0.000	0.000*	0.000*
Single parent	-0.106***	-0.063***	-0.083***	-0.010	-0.075***	0.006	-0.066**	0.011	-0.085***	-0.012	-0.076***	-0.027*	-0.050**	0.013	-0.114***	-0.063*
Large family (3+ children)	-0.095***	-0.002	-0.073**	0.018	-0.095***	0.032	-0.128**	0.058	-0.062	0.061	-0.157***	-0.048**	-0.060*	0.010	-0.205***	-0.033
No working age adults	0.077***	0.035***	0.078***	0.038***	0.044***	0.037***	0.103***	0.006	0.064***	0.036**	0.000	-0.005	0.044***	0.050***	0.055***	0.026***
No retired	0.016**	0.095***	0.057***	0.169***	0.093***	0.170***	0.031*	0.195***	0.055***	0.145***	0.082***	0.112***	0.013	0.060***	-0.012	0.100***
Max hh. Education	0.069***	0.006	0.052***	0.006	0.131***	0.021**	0.101***	0.021**	0.066***	-0.001	0.075***	0.003	0.135***	0.052***	0.107***	0.020**
Urban (0/1)	0.022***	-0.006	0.023*	0.044**	0.112***	0.007	0.148***	0.020	0.092***	0.068***	0.069***	0.016			0.078***	0.030*
Owner (0/1)	0.005	-0.002	0.026	-0.008	0.072***	0.049*	0.049*	-0.021	0.021	0.052	-0.050***	-0.051***	0.044**	0.009	0.048*	0.025
Disposable income (lag1)	7.7E-05***	5.4E-05***	1.6E-04***	1.2E-04***	5.2E-05***	1.4E-05*	1.4E-04***	6.5E-05*	1.9E-04***	1.8E-04***	1.5E-04***	1.1E-04***	3.3E-05*	5.1E-06	2.1E-05*	1.8E-06*
N	10722	4255	7358	2974	8993	3552	4888	1923	5248	2114	16964	6816	9935	3919	5748	2274

Notes: *p<0.05;**p<0.01;***p<0.001; dependent variable entered in logarithmic form.
Source: Own calculations based on the EU-SILC 2007 longitudinal database